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|---|---|---|---|---|---|
| Austria | Sch24 | Iran | Rls210 | Pakistan | Rs35 |
| Bahrain | Din0.750 | Israel | Shk2.50 | Philippines | Pso40 |
| Belgium | BFr55 | Italy | L2000 | Poland | Zl 9,000 |
| Cyprus | C£0.90 | Jordan | JD1 | Portugal | Esc165 |
| Denmark | DKr12.00 | Korea | Won 2000 | Qatar | QR9.50 |
| Egypt | E£3.25 | Kuwait | Fils.500 | S.Arabia | SR7.00 |
| Finland | Fmk9.00 | Lebanon | L£600.00 | Singapore | S$4.10 |
| France | FFr7.50 | Lux | LFr55 | Spain | Pta165 |
| Germany | DM2.50 | Malaysia | M$4.25 | Sweden | SKr12 |
| Greece | Dr150 | Morocco | MDh8.00 | Switz | SFr2.80 |
| Hungary | Ft107 | Neth | Fl 3.25 | Thailand | Bt50 |
| Iceland | IKr160 | Nigeria | Naira12 | Tunisia | Din0.800 |
| India | Rs15 | Norway | NKr12.00 | Turkey | L2000 |
| Indonesia | Rp3100 | Oman | OR1 | UAE | Dh7.00 |

EUROPE'S BUSINESS NEWSPAPER

# FINANCIAL TIMES

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D 8523A

**EC CURRENCY**

**EMU would bring stability**

Page 6

# Saddam tells Heath he will free some UK hostages

THE RELEASE of an unspecified number of British hostages in Iraq looked likely yesterday after a three-hour meeting between Mr Edward Heath, the former British prime minister, and President Saddam Hussein, writes Alison Smith in London.

*Mr Heath told a Baghdad* press conference that arrangements would be made for some of the 1,400-plus British hostages to return home on Tuesday.

"The President assured me that some will be returning as a result of my visit," he said.

Mr Heath went to Baghdad after appeals from relatives of some sick and elderly hostages for him to try to secure their release. About 53 hostages are thought to be in the most vulnerable categories, though it is not clear whether more than a handful will be allowed to go.

"Mr Heath will go home with some good news," said the Iraqi Information Minister, Latif Nassayif Jassim, although he did not elaborate.

**Japanese government leaders emerged battered from their first week of defending a controversial legislative plan to *enable them to send troops overseas,* but still appeared determined to press ahead with it.**

**The government has encountered substantial opposition to its moves to send troops to assist multinational forces in the Gulf. Many people in Japan and in neighbouring countries fear a resurgence of Japanese militarism. Page 2**

The news was given a tentative welcome in Britain, although the Foreign Office was awaiting confirmation before commenting.

Mr Heath's decision to make the visit has been criticised by some of his Conservative Party colleagues, including government ministers, who believed that his mission would be exploited by the Iraqis and used as propaganda. Mr Heath himself has insisted that the mission was not political and was purely humanitarian.

Yesterday's meeting with Saddam followed two hours of talks with Mr Tariq Aziz, the Iraqi foreign minister, on Saturday evening.

According to reports from the BBC, Mr Heath was said to have explained to Saddam the cases for releasing different categories of hostages, including the ill, the elderly and those under 21 years old. Saddam had apparently been sympathetic, but had outlined the reasons why the foreigners were not being allowed to leave.

At his press conference, Mr Heath said Saddam had discussed the Gulf crisis and explained that he would do everything possible to achieve a peaceful solution, but had shown no sign of being ready to withdraw from Kuwait.

"His emphasis on diplomatic action was very considerable

Continued on Page 18

Former British prime minister Edward Heath (left) with Iraqi President Saddam Hussein yesterday

## World News

### Malaysian premier on course for third term

Malaysian prime minister Mahathir Mohamad's National Front coalition seems likely to win only a simple majority in parliamentary elections and not the two-thirds he needs to pass constitutional changes. Page 18

**Aoun ally shot**

Dany Chamoun, National Liberal Party chairman and staunch ally of general Michel Aoun, was assassinated with his wife and two sons in Christian east Beirut. Page 18

**Jews murdered**

A Palestinian teenager has been arrested for stabbing three Jews to death in West Jerusalem as revenge for the police killing of 21 Arabs on Temple Mount. Page 2

**Khmer train ambush**

Fifty people were killed when Khmer Rouge guerrillas ambushed a train convoy near the port city of Kompong Som in Cambodia on October 17.

**Schools allow blacks**

The first of South Africa's state-run white schools to be polled have voted overwhelmingly to admit black pupils next year.

**Census curfew**

Turkey and Venezuela both confined their citizens to their homes to conduct a nationwide census. Turkey said it was the last headcount curfew it would have.

**Polish election feud**

Prime minister Tadeusz Mazowiecki, risking all to challenge Lech Walesa in Poland's presidential race, has strongly hinted he will resign as premier if the Solidarity leader beats him in next month's elections.

**Ceasefire plan**

*Belgian foreign minister Mark* Eyskens said he had received a message from rebels in the former colony of Rwanda saying they were ready to agree to a ceasefire as a prelude to negotiations.

**Taiwan protests**

Taiwan has protested after Japan blocked a group of Taiwan athletes from planting an Olympic torch on a deserted group of islands that are the subject of a territorial dispute between Taipei, Tokyo and Peking.

**USSR party formed**

Members of more than 30 Soviet opposition parties and groups have met to found the 'Democratic Russia' political movement.

**Row over mosque**

Indian government faces growing resentment from Moslems after announcing that the state would compulsorily acquire the site of the disputed mosque at Ayodhya in northern India where Hindu fundamentalists plan to construct a temple. Page 3

**Poll tax riot**

British government ordered a full police report into how a peaceful protest in London on Saturday against the poll tax turned into a riot. There were 120 arrests and 12 people were injured. Page 7

**Sweden in crisis**

Sweden's beleaguered Social Democratic government is struggling to put together together an emergency package of austerity measures designed to assure business *opinion* that the country's currency will not be devalued. Page 4

**Cincinnati Reds win**

Cincinnati Reds won baseball's World Series by beating the defending champions Oakland A's 2-1 to record their fourth straight victory in the best-of-seven series.

## Business Summary

### Lufthansa makes fresh attempt to win Interflug

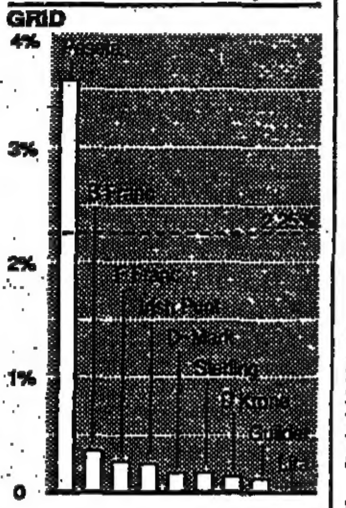
Lufthansa, state-owned German national airline, has come up with an alternative means of acquiring control of Interflug, the former east German carrier, that it believes *may not run into opposition* from the federal cartel authorities in Berlin.

Mr Heinz Ruhnau, chief executive of Lufthansa, has suggested that the Bonn government give his company the contract to revitalise Interflug. Page 19

EUROPEAN Monetary System: Sterling continued to slide down the system against the background of disappointing economic news – rising UK average earnings and higher bank lending – plus political nervousness after the Conservative Party's defeat in the Eastbourne by-election. The pound fell below its central rate of DM2.95 on Friday and finished only 0.18 per cent above the lowest-placed Italian lira, compared with 1.98 per cent at the end of the previous week. Currencies, Page 29

**EMS** October 19, 1990

GRID




TEXAS Instruments, leading US semiconductor and electronics group, is suffering from a slump in memory chip prices combined with heavy costs of new plant construction which have pushed it into losses for its third quarter. Page 19

AMERICAN Telephone & Telegraph, largest US telecommunications company, has proposed radical measures to cut international telephone rates. Page 4

JAPANESE banks face substantial losses and strained balance sheets if, as seems likely, holders of several billion dollars worth of Swiss franc convertible bonds take their option to redeem the bonds early. Page 19

NORWAY today links its currency to the European Currency Unit in a move that will be seen in Brussels and Oslo as an important step in the country's links with the EC. Page 5

UK motor industry recorded an increase in exports which enabled it to boost car production by 8.6 per cent last month. Page 7

RACAL Electronics of the UK is leading a consortium which has been chosen by Europe's railways to study the feasibility of building a pan-European telecommunications network. Page 4

RUPERT Murdoch, whose News Corporation is facing mounting debt problems, is going ahead with a controversial proposal to issue non-voting shares. Page 19

ITALSTAT of Italy, Europe's biggest toll motorway operator, and two French toll operating companies are among the members of three consortia which today will submit proposals to construct Britain's first privately financed motorway. Page 18

# EC aid 'has failed to make electronics groups competitive'

**By Guy de Jonquières,** International Business Editor, in London

SENIOR European Commission officials are expressing growing dissatisfaction with EC policies for the electronics industry, saying they have not made the industry more competitive and need to be re-thought.

The officials say that programmes such as Esprit, a subsidised collaborative venture, have led to few useful innovations and have outlived their purpose. They also criticise leading European electronics companies for not doing enough to improve their commercial performance.

The EC is due to spend about Ecu1.75bn ($2.39bn) on research and development this year. Much of it is used to subsidise multi-company collaboration schemes such as Esprit in information technology and the Ecu4bn Joint European Submicron Silicon (Jessi) project in advanced microchips.

These programmes, which involve mainly European-owned companies and research institutes, have received strong political backing from EC governments. They are intended to spearhead the promotion of strong, independent European *high-technology* industries able to compete with the US and Japan.

The Commission's information technology division, which administers Esprit, says the seven-year-old programme needs more time to produce results. However, influential officials elsewhere in the Commission contend the basic approach is flawed. Specifically, they say:

- the recent financial and management crisis at Philips of the Netherlands, the European industry leader, and the weakness of many other companies raise serious questions about the value and purpose of the EC programmes;
- large European electronics companies have become unhealthily dependent on EC subsidies and trade protection and are not investing aggressively enough in new products and markets;
- the takeover of ICL, Britain's biggest computer company, by Fujitsu of Japan and the growth of Japanese manufacturing capacity in Europe make it hard to continue limiting EC support largely to European-owned companies;
- although Esprit has improved technical information flows between companies, it has produced little commercially useful technology and needs to be up-dated. "Our policies keep re-inventing the past," says one official.
- EC technological support has been spread too thinly across too many projects. There should be more emphasis on basic research, improving demand and raising skills levels, and less on supporting individual European producers.

Pressures are mounting in Brussels for a thorough review of the EC's approach to high-technology industries before the end of 1992, as part of a broader industrial policy overhaul designed to curtail sectoral intervention schemes.

That would not affect immediate plans to extend Esprit for a further four years from the end of this year at a total cost of Ecu2.7bn. However, critics of the programme say tougher performance conditions should be imposed on companies which benefit from it.

Giving direction to the single market, Page 16

# Setback for Polly Peck plan to use Cyprus cash

**By Clay Harris** in London

POLLY PECK International has failed so far to obtain enough cash from northern Cyprus to satisfy the conditions set by bank creditors earlier this month when they extended a standstill on the troubled company's debt repayments.

The reluctance of authorities in the Turkish-controlled half of the island to allow cash to be transferred to London is now the biggest immediate threat to Polly Peck's survival.

The company also faces a writ from the UK property group British Land, demanding repayment of more than £1m ($1.97m) in commercial paper which fell due last month, but this alone is not expected to provoke the appointment of administrators.

A Polly Peck director admitted yesterday that the fruit trading and electronics group was "a bit in arrears" on the remittances it had promised from northern Cyprus.

He said Coopers & Lybrand-Deloitte, the accounting firm appointed to report to creditors on Polly Peck's operations, had confirmed that it had nearly £100m on deposit there. That sum would be more than enough to satisfy

Continued on Page 18

Bondholders meeting, Page 20

# Deal on US tax rates may break budget deadlock

**By Peter Riddell,** US Editor, in Washington

COMPROMISE plans on US tax rates were put forward by the White House yesterday, opening the way to a possible resolution of the budget crisis.

As the joint conference of the Senate and House of Representatives continued into its third day, leading Democrats talked of making "good progress". The aim of the talks is to reconcile widely differing budget plans approved last week by the two Houses.

To win Democratic support, President George Bush said he would consider an increase in the marginal income tax rate paid by the wealthiest from 28 to 31 per cent, provided the rest of the package was "totally satisfactory".

Mr Richard Darman, the budget director, said the suggested 31 per cent rate would involve flattening the so-called bubble in the US tax system under which those earning between $80,000 and about $180,000 a year pay a marginal rate of 33 per cent, while those earning above that level pay only 28 per cent.

The former group of more than 5m households would see a cut in their top rate to 31 per cent, while the latter group of roughly 700,000, the wealthiest, would get a tax increase. The *net effect would be to raise* more than $5bn over five years.

However, Democrats are pressing for other changes, including a surtax on the very rich – those earning more, say, than $500,000 or $1m a year – and limits on deductions from tax claimed by the wealthiest.

Senator George Mitchell, the Democratic majority leader, yesterday predicted compromises between the Senate proposal for a doubling in the federal petrol tax to 19.5 cents a gallon and the House call for no change, and on the scale of changes in Medicare health provision for the elderly.

Even if Mr Bush backs this package, it will still be difficult to sell to Congress ahead of the mid-term elections two weeks tomorrow, following the rejection of the first agreement on *October 5 and subsequent* narrow votes on alternative plans.

Congressman Newt Gingrich, the Republican minority whip in the House, said he would oppose a deal of the kind emerging from the conference because it would raise taxes in a way which would deepen the recession. There was "a real danger" of the Republicans losing up to 10 seats. Losses might not be any

Continued on Page 18

Analysis, Page 2

# British Telecom set to attack US telecommunications market

**By Hugo Dixon** in London

BRITISH TELECOM is considering breaking into the US long-distance telecommunications market in association with McCaw Cellular Communications, the largest US mobile communications group, in which it holds a 20 per cent stake.

The venture might include providing both domestic long-distance and international services.

Such a move would put BT in direct competition with American Telephone and Telegraph, MCI and US Sprint – the leading US long-distance operators – and would threaten the cartel which until now has run this business on a co-operative basis.

BT's stated corporate goal is to become a leading international telecommunications group with operations in North America, Europe and the Far East. In addition to the stake in McCaw, the company also owns Tymnet, a leading US data communications group.

A US telecommunications industry specialist said BT had been exploring the implications of entering the long-distance market with McCaw. The purpose of linking with McCaw, rather than going in alone, seems to be to bypass US regulations which prevent foreign companies owning more than 25 per cent of a radio licence in the US. Microwave and other radio links are used in long-distance communications.

Even so, BT would still be regarded as a "dominant" operator by US regulatory authorities, requiring it to file detailed accounts. Any long-distance operator with more than a 15 per cent foreign equity stake is considered dominant by the Federal Communications Commission, the US regulator.

"As of the moment, we are not going into the carrier business in association with McCaw," BT commented. But it refused to rule out the possibility that it might take this route in the long term.

Mr Iain Vallance, BT's chairman, indicated last month that he had plans to use the McCaw stake to expand into other businesses.

"McCaw is in those areas of the US which generate most telecommunications business whether mobile or otherwise. If you were to map the positioning of US-based multinationals in the US against the McCaw network, then you'd find it interesting," he said.

US operators are forbidden to compete in the long distance market in the UK but this is expected to change as a result of the UK government's review of telecommunications policy. Both AT&T and MCI said they would have to consider any opportunities thrown up as a result of the review.

Cable and Wireless, the UK-based international telecommunications group which owns Mercury Communications, already runs a long-distance service in the US. Because it does not use radio links it is able to own 100 per cent of this operation.



## CONTENTS

**THE MONDAY INTERVIEW**

Ted Forstmann (left), the New York leveraged buy-out specialist, finds it as hard to say "*I told you so*" as most New Yorkers though he has a *lot* to say it about. The gloomy economic outlook does not bother *him*.

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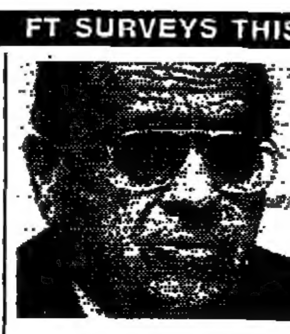
## FT SURVEYS THIS WEEK



*Pierre Bérégovoy, the French finance minister.*

**European Finance and Investment series: FRANCE**

Five years of reform have given France a completely modernised financial system. – *see separate section*

**TODAY:**
**California:** problems of affluence and diversity. *Separate section.*
**European Banking and Investment: France.** *See left.*

**TUESDAY:**
**Italian industry:** facing the legacy of political negligence.
**Canada:** atypical intolerance.

**WEDNESDAY:**
**Aluminium:** improving prospects.
**Portugal:** cautious appraisal of the task of integration.

**THURSDAY:**
**Cayman Islands:** British banks, American hotels and Jamaican buildings.

**SATURDAY:**
**Independent Education:** a public school primer.

# Social pact for 1991 agreed in Portugal

**By Peter Wise in Lisbon**

PORTUGUESE trade unions and employers have reached agreement with the government on a social pact for 1991 that involves a voluntary wage ceiling, a commitment to labour peace, improvements in working conditions and welfare payments.

The accord is a breakthrough for the centre-right government of Prime Minister Anibal Cavaco Silva, which has been trying to revive a national wage pact since a previous agreement collapsed in 1988. Wage restraint is seen as crucial to Portugal's efforts to reduce inflation and prepare the economy for European integration.

At the heart of the accord is a non-binding agreement to keep average wage increases below 13.5 per cent. A tripartite commission will be empowered to raise this ceiling if insufficient progress is made in reducing inflation from an expected 13.25 per cent this year to the government target of 10.75 per cent in 1991.

In return, the government has agreed to reduce the maximum working week from 48 hours to 44 hours and move progressively to 40 hours by 1995. The minimum monthly wage for industrial and farm workers will be raised 15 per cent to Esc40,100 (£154). Most other pension and social security payments will also go up 15 per cent.

Benefits for employers include a "social peace" clause under which unions commit themselves to try to resolve labour conflicts through negotiation rather than strikes.

# Poland presses Germany on border treaty

**By Christopher Bobinski in Warsaw**

POLAND is pressing Germany to sign a treaty guaranteeing their existing border on the Oder and Neisse rivers. Mr Krzysztof Skubiszewski, the Polish foreign minister, reacted sharply at the weekend to a statement by Mr Helmut Kohl, the German Chancellor, that negotiations on a treaty could last until next April.

Mr Skubiszewski said a treaty "could be agreed and signed within two days".

At unification talks in Paris in July the Germans committed themselves to signing a frontier treaty with Poland "as soon as possible after unification".

Poland has had treaties guaranteeing its western frontier with both the former German states but a fresh treaty with a unified Germany is now required.

Mr Skubiszewski also answered Mr Kohl's charge that the delay had been caused by the Poles. The Polish minister said that his country had presented its latest draft of a treaty to the Germans in July and had had no reply.

Mr Skubiszewski did admit though that longer talks were needed on another treaty regulating relations between the two countries and including provision for the disruption caused by the disappearance of East Germany as Poland's trading partner and incorporation of its territory into the European Community.

# Tokyo stands by plan to send troops abroad

**By Ian Rodger in Tokyo**

JAPANESE government leaders emerged battered from their first week of defending a legislative plan enabling troops to be sent overseas, but appeared determined to go through with it.

"Unease about Japan's contribution to the Gulf is rising in the US," Mr Ichiro Ozawa, secretary general of the ruling Liberal Democratic Party (LDP) said in Nagoya at the weekend. "If Japan were invaded, we would expect the United Nations and the US to help us. Yet when others ask us, we reciprocate only with money. It is not good enough."

The government has run up against substantial opposition to its proposals from many in Japan and in neighbouring countries who fear a resurgence of Japanese militarism.

On Friday, Mr Choi Ho Joong, the South Korean foreign minister, said in Seoul that he was deeply worried by Japanese moves to send troops to assist in the Gulf.

Also on Friday, a top legal adviser to the government argued under questioning in the Diet that it would be unconstitutional for Japanese troops to join a United Nations organised military force. Both the question and the answer were hypothetical, as there is no UN force at the moment, but the answer caused a brief sensation in political circles in Tokyo.

There is now widespread doubt whether the legislation, in its present form, can win parliamentary approval. If the bill fails, it could affect the standing of the government of Prime Minister Toshiki Kaifu as well as rousing fresh resentment about Japan's lack of action on the Gulf in the US and other western countries.

In initial debates on the bill last week, the Government fared badly. On Friday, Mr Taro Nakayama, the foreign minister, amended answers he had given under tough questioning from Mr Tsuruo Yamaguchi, secretary general of the Japan Socialist Party, about whether the legislation would allow Japanese forces to help US ground troops in Saudia Arabia. It would.

The LDP itself has appeared divided over the bill. Mr Michio Watanabe, head of one of the party's larger factions, said that if the bill failed to pass the lower house of the Diet, the government might have to resign and call a general election. Mr Ozawa promptly retorted that the government would not be to blame if the bill failed and no one would have to resign.

Mr Kiichi Miyazawa, leader of another faction, said in a speech at the weekend that he was reserving comment on the issue unless and until it became crucial. This was widely interpreted as meaning he opposed it.

And Mr Ryutaro Hashimoto, the finance minister, reiterated his determination not to resort to deficit financing for Japan's Gulf contributions.

For all the noise, it is likely that the bill will pass without difficulty in the lower house of the Diet where the LDP has a large majority.

Its fate probably depends on whether the party can round up enough support from independents and minor parties in the upper house of the Diet to form a majority.

At the weekend, there were reports that the Komei (clean government) party, which has enough seats to give the LDP a majority, was moving towards making a deal with the ruling party. However, it is insisting that the bill's provisions have a very limited life. Another influential factor will be the result of an upper house by-election in Nagoya on Nov 4 in which the LDP is expected to win a seat now held by the Komei.

# Senators take aim at Uruguay round

**By Nancy Dunne in Washington**

THE Uruguay round of world trade talks has run into fresh trouble in the US Congress, where at least 20 Senators have endorsed a resolution which could further hamper efforts to bring trade reforms.

The resolution would withdraw the Senate's 1988 agreement not to amend legislation implementing any accord reached next December under the General Agreement on Tariffs and Trade.

The round is already deep in controversy over attempts to set new trade rules for agriculture, textiles, intellectual property rights, services and investment. Senate revocation of the so-called "fast track" voting rule could be a final blow.

The resolution, which criticises the Bush Administration's proposal to phase out trade-distorting farm programmes, need not be approved by the House of Representatives or President Bush. As simply a rule change, it needs only the approval of a majority of the 100 senators.

The 20 sponsors do not plan to bring the proposal to a vote in this term of Congress. But the measure is expected "to send a message" to Geneva that a significant segment of Congress does not like the course the negotiations are taking. These senators may bring the measure to a vote next year if a final package of reforms unacceptable to them wins approval in Geneva.

Farm organisations across the US are urging support for the resolution. In Texas, a hotbed of anti-Gatt sentiment, Mr Jim Hightower, state agriculture commissioner, pressed senators to halt the fast track. He called for "a realistic alternative" to the US farm proposal which would acknowledge the importance of food self-sufficiency and establish an international emergency food reserve.

Senator Lloyd Bentsen, chairman of the Senate Finance Committee and a Texas Democrat, has expressed concern about the resolution and determination to fight it.

The looming resolution battle reflects the long-running bipartisan deadlock between the Bush Administration and many members of Congress over trade policy. While Congress pays lip service to multilateralism, it is more committed to bilateral actions to force open world markets.

# Democrats stress role of Congress in Gulf decision

**By Peter Riddell, US Editor, in Washington**

THE US Congress must authorise any decision by President George Bush to commit forces to war in the Gulf, Senator George Mitchell, the Democratic majority leader, insisted yesterday. This conflicts with the administration view that it does not have to seek Congress's permission to take military action, though it will consult.

The issue could become politically significant since Congress is due to go into recess in a week until early January. Senator Mitchell said yesterday that Mr Tom Foley, the House Speaker, and he had considered reconvening Congress if necessary.

He said: "It is important to remember that, under the American constitution, the president has no legal authority to commit the US to war. Only the Congress can make that grave decision."

His comments were made as polls showed continuing majority support, although reduced, for President Bush's handling of the crisis and as marches and rallies against the military commitment were held in 19 cities. Protesters, taking their inspiration from the anti-Vietnam war demonstrations of 20 years ago, chanted slogans such as "Hell no, we won't go; we won't fight for Texaco."

Organisers said the New York crowd was between 15,000 and 25,000, while the police estimated between 4,000 and 5,000.

War veterans were among nearly 10,000 demonstrators who marched to Times Square, New York, on Saturday to protest US military involvement in the Gulf crisis

# Palestinian labourer stabs three Jews to death in Jerusalem

THREE Jews were stabbed to death yesterday morning in Jerusalem by a Palestinian labourer, apparently to avenge the police killing of 21 Arabs on Temple Mount two weeks ago, writes Judy Maltz in Jerusalem.

Jewish mobs reacted by stoning Arab cars and attacking Arab workers. Thousands of police were called in to bolster the city's forces.

The victims of the stabbings were an 18-year-old unarmed female soldier, a 43-year-old male civilian and a policeman, who had tried to halt the attacker.

The 19-year-old Palestinian, a resident of a West Bank village near Bethlehem, cried out "Allahu Akbar [God is Great] as he stabbed his victims in one of West Jerusalem's most established neighbourhoods, where he was employed as a construction worker.

"This morning's incident proves that we should immediately open fire on anyone trying to attack Israeli security forces and civilians," said Mr Roni Milo, the police minister.

Since the killings on October 8 of 21 Arabs near the Dome of the Rock mosque in Jerusalem, leaders of the Palestinian uprising have called on residents of the occupied territories to attack and kill Jewish civilians and soldiers.

Two Palestinian organisations claimed responsibility for the stabbings – Force 17 of Fatah and a group affiliated with the Islamic Jihad movement – saying it was in revenge for the Temple Mount killings. But police said they were still investigating whether the attacker had acted on his own accord.

Mr Rafael Eitan, the agriculture minister, and member of a small right-wing party, said spot checks should be made on Arabs entering Jerusalem to deter them from smuggling in weapons.

# Broadcasting authority to rule on La Cinq

**By William Dawkins in Paris**

FRANCE'S broadcasting authority will today call a final meeting of the main shareholders of La Cinq, the loss-making private television channel, before deciding whether to allow a rescue, restrict the terms of La Cinq's franchise, or order the station to close.

The Conseil Supérieur de l'Audovisuel (CSA) is due to rule in the next 10 days on whether Mr Jean-Luc Lagardère, chairman of Hachette, the publishing and media group, can take control of La Cinq from Mr Robert Hersant, owner of the right-wing newspaper, Le Figaro.

La Cinq's plight is the latest sign of the troubles in the French broadcasting industry, where patchy quality is causing the Government to rethink its broadcasting policy and a fall in advertising revenues has hit earnings. Only two of France's six main channels are profitable.

La Cinq, frequently troubled by battles between its shareholders and management, has lost FFr2.5bn since Mr Hersant took over in 1987. Mr Lagardère believes he can achieve break even by 1994. The Hachette chairman narrowly failed to gain control of TF1, France's biggest private television channel, on its privatisation in 1987.

The CSA risks being accused of allowing a concentration of power in broadcasting if it decides in favour of Hachette – also owner of the Europe 1 radio station. Yet the body, which is in theory independent, also risks appearing to be under the government's influence if it decides against Mr Lagardère. Some observers believe a compromise is likely: to relaunch La Cinq as a small specialist channel.

# Brazilian rifts widen as oil chief quits

**By Christina Lamb in Rio de Janeiro**

THE ABRUPT resignation on Friday night of the president of Petrobras, Latin America's largest corporation, has highlighted rifts in the government of President Fernando Collor.

Mr Luiz Octavia da Motta Veiga's announcement that he was quitting his powerful position as head of the state-owned oil concern came after a week of public differences between him and Ms Zelia Cardoso, the economy minister.

Accusing the government of ruining the company's finances, Mr Motta Veiga said that the Collor administration was forcing Petrobras to run at a loss to keep petrol prices and thus inflation down. He told a press conference: "My resignation was motivated by the unreality of the government's tariff negotiations and the way these were conducted."

A fall in the value of the cruzeiro has meant that despite three price rises since the start of the Gulf crisis Petrobras is effectively subsidising petrol prices by 50 per cent. The latest 20 per cent rise brings the price to \$2.39 a gallon, compared to \$3.29 in March.

But on Wednesday Ms Cardoso publicly accused Mr Motta Veiga of "excessive corporatism" and poor management, citing his decision last month to grant pay rises of 98 per cent to end a strike.

Mr Motta Veiga, who is to be replaced by Mr Eduardo do Teixeira, the chief economy secretary, is the second key Collor appointee to quit within a week. Last weekend Mr Bernardo Cabral, the powerful justice minister, resigned over press reports that he was having an affair with Ms Cardoso.

Attacks by the two men on the government's way of doing business have fuelled speculation over the future of Ms Cardoso.

# Budget 'wiggling' taxes Congress

## The right balance for a deal is proving elusive, writes **Peter Riddell**

"WE HAVE very little wiggle room," Senator Robert Dole, the Republican minority leader, said over the weekend about the joint Senate and House of Representatives conference which has been attempting to end the US budget crisis.

"If you move too far in one direction," he warned, "you lose 10 Republicans, and the bill is dead. If you move too far in the other direction, you lose 10 Democrats, and the bill is dead."

This balancing act reflects the very different packages produced by the two houses and the rapid approach of the mid-term elections two weeks tomorrow on November 6.

The House version was largely a statement of Democratic beliefs, raising taxes on the better off, leaving federal petrol taxes unchanged and scaling back savings on Medicare health provision for the elderly. The final package passed by 227 votes to 203, with only 10 Republicans in support.

By contrast, the Senate version was a bipartisan leadership effort backed by the White House. It avoids increases in tax rates (though limits deductions by the better-off), proposes a doubling of petrol taxes to 19.5 cents a gallon and larger savings on Medicare. It was approved by 54 votes to 46 with the backing of 31 (out of 55) Democrats and 23 (out of 45) Republicans.

The House version would raise \$149bn in taxes over five years, with 68 per cent coming from taxpayers with annual incomes above \$100,000, while the Senate package would raise \$146bn over the period, with 42 per cent coming from that group.

While the conference in theory includes 104 members of both houses, it is has in practice been a re-creation of the summit of Congressional leaders and White House officials which produced the original package defeated by the House on October 5.

Yet the failure of that agreement shows how politically sensitive the current exercise has to be. Congressman Dan Rostenkowski, the Democratic chairman of the House Ways and Means committee, said: "I think the people in that room could have settled in three or four hours. But there are things we can't pass in the House and there are things we can't pass in the Senate. We can't deliver the way we used to."

Strong support from House Democrats is necessary since most House Republicans, led by minority whip Mr Newt Gingrich, will almost certainly oppose any package involving substantial indirect as well as direct tax increases, as will be proposed. To avoid significant defections among House Democrats the better-off will have to be seen to make a sizeable contribution and there will have to be some concessions on the petrol tax and Medicare.

However, on the Senate side, many Democrats seeking re-election will probably oppose any likely package and substantial Republican support will be needed. That, and the White House's opposition to anything like the House package, limits the room for manoeuvre.

The need to secure the backing of around half the Senate Republicans and a large majority of House Democrats will probably produce a strange hybrid. There will be some savings on Medicare, though less than in the Senate plan, the petrol tax will rise by less than 9.5 cents a gallon, and the increases in taxes on the wealthy will go beyond the Senate version.

The way to a deal has been opened by White House acceptance of a flattening of the tax "bubble" – under which the wealthiest taxpayers pay a marginal 28 per cent rate, while those on \$78,000 to \$180,000 face a rate of 33 per cent. Much depends on other changes affecting the wealthiest.

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# Delhi faces backlash from Moslems over mosque

THE Indian government yesterday faced growing resentment from Moslems after announcing that the state would compulsorily acquire the site of the disputed mosque at Ayodhya where Hindu fundamentalists plan to construct a temple; writes David Housego.

The mosque, in northern India, and the surrounding land were acquired by the government at the weekend as part of complicated moves intended to defuse the explosive Hindu-Moslem conflict over the site and save Mr V.P Singh's government from threatened collapse.

Mr L.K. Advani, the leader of the radical Hindu BJP party, yesterday described the government's acquisition of the mosque site as a "victory" for militant Hindus planning to start construction of the temple in eight days time. The BJP warned last week that it would withdraw its support from Mr Singh's administration if the government attempted to halt construction.

Moslem religious leaders, who had earlier met government representatives, yesterday described the acquisition as "a sheer mockery of the promises" of the government and said that the state could not take over Waqf (Moslem religious) property.

A delegation from the Babri Masji (mosque) defence committee protested to the Prime Minister last night. Moslems until now have seen Mr Singh's administration as a protector of their interests.

The acquisition of the mosque, and the 70 acres surrounding it, was part of a package announced unilaterally by the government. The land is to be handed over to a Hindu foundation as part of the grounds for the new temple. But in an effort to shelve controversy over the mosque itself – which Hindus claim is the birthplace of Lord Ram, the Hindu deity – the government said that its future would be referred to the Supreme Court. The compromise has privately been welcomed by some politicians. Hindu fundamentalists have said, however, that they will not be satisfied until they have full control over Ram's reported birthplace.

Mr Singh held negotiations with political leaders over the weekend. The fear is that if the situation is allowed to drift, there could be violent Hindu-Moslem clashes as the Hindu deadline for starting construction of the temple on October 30 draws closer. Mr Advani is now in Bihar on the way to Ayodyha at the head of a mass procession.

# Village India, where higher castes feel the squeeze

**David Housego** and **K.K.Sharma** visit Khedla, where the tensions aroused by the jobs reservation programme are evident

KHEDLA is a a dusty village west of New Delhi, a mirror of the caste tensions engulfing northern India.

Large houses built of rough hewn stone, with spacious courtyards, suggest this must have once been a prosperous village in which high and land-owning castes lived well under a hierarchic social structure that left the menial tasks to those of less fortunate birth.

But walls have crumbled and some houses are in disrepair. Pigs scavenge in rubbish that has been tossed into back alleys. Open drains with black sewage carve a channel in the middle of the unpaved streets.

The most striking aspect of the village of about 4,000 people, in Haryana state, is that it is the higher castes, particularly the dominant rajputs – the warrior sub-caste of which Prime Minister V.P.Singh is a member – who have suffered most over the past 10 to 15 years of rising prices and unemployment.

According to ancient Hindu traditions, there were four castes – Brahmins (priests), Kshatriyas (warriors), Vaishyas (traders) and Sudras (other castes). "Untouchables" – those born to do work like sweeping or leather making – were excluded from the caste system as polluting true Hindus. Subsequently thousands of sub-castes (jati) have emerged in a system that has allowed more change than its hierarchic structure first suggests.

The rajputs in Khedla lost much of their land as a result of land reform 30 years ago and holdings have been further subdivided within families. They – like other upper castes in northern India opposed to Mr Singh's programme to extend job reservations for the lower castes – insist that finding jobs for their children has become increasingly difficult.

Mr Baljit Singh, says the problem for rajputs is that they have to compete against those with a city education. "We lose against them. But we also get overtaken by the scheduled castes (untouchables, or harijans) who get lower marks but have jobs (in central government or state service) reserved for them."

In sharp contrast to the sense of declining fortunes among the the warrior caste, the harijans of Khedla seem on the upward path. Their quarter of the village is the cleanest – with walls repaired and painted, and in some alleys drains channelled through open stone ducts. Undeterred by social stature from taking any job and helped by job reservations for harijans since independence, unemployment weighs less heavily.

Mr Pirthi Singh, an elder of the harijan quarter, says three of his sons have university degrees and jobs in government service and a fourth is now studying for his B.A.

Caste differences remain strong with villagers marrying within their caste. "A harijan has never married a caste above him," says Lekhan Singh, "and it is very doubtful that it will ever happen".

Different castes concentrate in different areas. There is a recognisable rajput quarter in Khedla – as there are quarters for the gujars (the other main landowning caste) and the harijans. There are about 15 Brahmin families, mostly poor, who earn their living from small holdings of land, performing religious ceremonies, and working outside the village in clerical jobs. Other smaller castes include the nais (barbers) and kumars (potters).

The harijans complain that in Khedla they are still sometimes treated as untouchables by higher castes who fear pollution from them. But some distinctions have become blurred in that members of a caste are not restricted to jobs associated with their caste. Rajputs complain that harijans will no longer sweep for them. "We share the sweeping among members of the family," says Mr Raghuraj Singh, a rajput now retired from the army.

The largest caste groups in Khedla are the gujars and the rajputs. The gujars were originally cowherds who acquired land from the rajputs at the time of land reform. Their holdings remain smaller, but they have more buffaloes and goats.

Indicative of the Pandora's box that has been opened up by the government's job reservation, the gujars are considered in much of northern India as being among the "backward castes". It is the increasingly vociferous lobby of the backward castes that Mr Singh set out to woo with his job reservation programme.

But in Khedla (as in much of Haryana), the gujars are considered part of the "forward castes" – and thus, in theory, ineligible for the job reservation programme. They are none the less an increasingly depressed community within the village – unable to survive on their agricultural income and unable to obtain jobs outside because of inadequate education and influence. Rishipel, 27, a young gujar on leave from the army, said that of his age group only two gujars had found jobs. The rest were unemployed.

Forced to look outside the village for jobs, the rajputs feel their opportunities have been squeezed by reservations for harijans, the lower level of village education and by competition from the jats.

The jats are the main farmer caste in Haryana from which the last three ministers of the state have been drawn and, as a consequence, alleges Mr Raghuraj Singh, they are getting all the jobs because of their political influence.

Mr Singh's two graduate sons are unemployed. He claims that to get them into the army would require a bribe of Rs15,000 (£430) to Rs16,000 which he does not have. "Only those with clout get jobs," he adds bitterly.

# Peking in trade pact with Seoul

By John Ridding in Seoul

SOUTH KOREA and China have signed an agreement to open trade offices in each other's capitals, the Korea Trade Promotion Corporation announced on Saturday.

The move is expected to boost bilateral trade and is seen as a first step towards establishing diplomatic relations between Seoul and Peking. Chinese troops fought on the side of North Korea during the 1950-53 Korean war and Peking has remained one of Pyongyang's principal supporters.

The offices, which are expected to be set up next month, will perform limited consular functions such as the issuing of visas and represent the first permanent missions to be exchanged by the two countries. Although China and South Korea have no formal ties, economic and other contacts have nevertheless increased. Two-way trade amounted to more than $3bn (£1.5bn) last year and is expected to reach about $3.2bn this year and $3.5bn in 1991.

The establishment of diplomatic relations with China remains the last big challenge for South Korea's policy of normalising ties with socialist countries. Over the last two years South Korea has established diplomatic relations with all eastern European countries except Albania. Last month, Seoul concluded diplomatic ties with the Soviet Union which, along with China, has been a main supporter of Pyongyang.

● Mr Kim Dae Jung, leader of South Korea's largest opposition party, ended a 13-day long hunger strike at the weekend, claiming success in extracting concessions from the ruling party. However, Mr Kim's Party for Peace and Democracy said it would continue its boycott of the country's national assembly.

Mr Kim's decision to end his hunger strike followed comments by Mr Kim Young Sam, executive chairman of the ruling Democratic Liberal Party. Mr Kim Young Sam said the government would not change the constitution from a presidential to a cabinet system if the opposition and the people did not want it.

Members of the North Korea women's soccer team cross the Korean border yesterday to play friendly matches in the south

# Burma to round up dissident priests

By Chit Tun in Rangoon

THE Burmese government, in a further move to suppress the "excommunication movement" of dissident Buddhist priests, yesterday empowered all regional military commanders to round up and prosecute under martial law all members of "unlawful" priests' organisations which had refused to dissolve themselves by midnight on Saturday.

The organisations have been formed by some priests outside the hierarchy of Buddhist bodies set up 10 years ago under the aegis of the then government of the Burma Socialist Programme Party (BSSP) in accordance with the rules laid down by clerical leaders of the country's nine Buddhist sects. How many of these "unlawful" organisations exist and how many of Burma's more than 300,000 Buddhist priests have joined them are details not disclosed by the government.

The excommunication movement, by which the priests refrain from accepting alms from military personnel or performing Buddhist rites for them, was started by some of these organisations in Mandalay, the national centre of the Buddhist faith, following clashes between military troops and priests on August 8, the second anniversary of the countrywide pro-democracy movement of 1988.

It spread to neighbouring towns and recently reached Rangoon. In its order proclaimed yesterday, the government maintains that priests belonging to undissolved "unlawful" organisations have lost their status as priests and must face legal action under martial law. The implication isthat they will be derobed, sent up before military courts, and punished with sentences ranging from three years'rigorous imprisonment to death.

The order said a priest recently arrested in Mandalay had confessed that he had been asked by a political partyto foment trouble among the priesthood as part of a plotto overthrow the government. The names of this priest and the political party concerned were, however, not disclosed.

An official report broadcast on the radio last night said that 125 priests from "unlawful" organisations had given signed statements of their withdrawal from these organisations.

## INTERNATIONAL NEWS

# Sweden's climate becomes more austere

### Stockholm may have to give up cherished goals to defend its credibility abroad, writes Robert Taylor

SWEDEN'S beleaguered Social Democratic government struggled at the weekend to cobble together an emergency package of austerity measures, designed to convince sceptical business opinion at home and abroad that the country's currency will not be devalued as a way of alleviating its worsening economic troubles.

A disastrous week of foreign speculation against the krona forced the country's central bank last Thursday to raise interest rates for bank borrowing to 17 per cent. This followed a record currency outflow of SKr12bn in the previous week and a slide in currency reserves.

Mr Ingvar Carlsson, the prime minister and Mr Allan Larsson, his finance minister, are due to unveil their plan to stabilise the economy within the next few days with what they hope will be broad cross-party support in parliament.

The measures are expected to include swingeing cuts in cherished social welfare programmes through a pruning of departmental budgets and possibly a real fall in the value of benefits. Savings of around SKr25bn are being sought.

Wage and price controls for 1991 cannot be ruled out either but it is more likely ministers will lean on union leaders and employers to accept a restrictive national agreement aimed at breaking Sweden's wage/price spiral.

The crisis has been building for some time, many would say for years. Last spring's spat that led to the brief departure of the Social Democratic government and the abrupt resignation of finance minister Kjell-Olof Feldt after Parliament refused to accept the government's plan for a wage, price and dividend freeze was perhaps the first public awareness of how serious Sweden's underlying economic problems had become. However, the resulting austerity package agreed between the Social Democrats and the opposition Liberals has done little to improve the outlook.

Mr Carlsson – by nature a man of compromise rather than an innovator – is now being criticised for not acting more decisively and much sooner. However, his room for manoeuvre has been restricted through lack of a parliamentary majority, the unrealistic expectations of his own party that the government could simply go on spending, and the refusal of the unions to show restraint in wage bargaining.

Only ten days ago in his autumn statement to parliament Mr Larsson acknowledged the rapid deterioration in the Swedish economy with official projections for 1991 of an almost zero growth rate, a balance of payments deficit amounting to around 3.7 per cent of the gross domestic product, and wage and price increases of around 9 to 11 per cent, far above most of the country's competitors.

Mr Larsson explained the writing was on the wall at his party's congress last month in a blunt speech but now he began to spell out in general terms what had to be done to remedy the troubles.

His bleak message suggests many of the cherished achievements of Sweden's post-war social market economy are now in jeopardy.

The official commitment to full employment seems likely to be dropped. Already forecasts suggest the registered jobless total will double to around 3 per cent next year, but it could go much higher. In the 1960s and 1970s Sweden solved its labour market problems through public service job expansion, and more than one in three workers now work for the public sector. But with an estimated 58 per cent of its gross domestic product already devoted to public expenditure, this escape route is now closed.

Mr Larsson insists that the proportion of national resources devoted to the public sector must be reduced. He is keen to see greater productive efficiency in the welfare state through the introduction of private alternatives in child and health care and actual cuts in Sweden's generous sickness insurance system.

The government also wants to stimulate a more competitive climate for business through measures to improve sluggish productivity, increase savings, and stimulate domestic private investment as well as push through supply side measures designed to make the private labour market more flexible.

The Swedish economy internationalised rapidly in the late 1980s – many big companies moved operations overseas to avoid high domestic production costs, and the deregulating of the country's financial system culminated in the abolition of exchange controls. Sweden has thus become much more vulnerable to outside opinion.

# AT&T seeks big cut in international call charges

By Hugo Dixon

AMERICAN Telephone & Telegraph, the largest US telecommunications company, has proposed radical measures to cut international telephone rates.

In a submission to the Federal Communications Commission this month, AT&T proposed that accounting rates between the US and foreign countries should be more than halved within three years. Accounting rates are a type of wholesale price which determines how much US telecommunications companies pay their foreign counterparts for delivering international calls to their final destinations and vice versa.

AT&T and other phone companies have blamed artificially high accounting rates for the high level of international prices charged to customers.

AT&T proposed that reductions in accounting rates should initially be negotiated bilaterally between US and foreign phone companies. If however such negotiations had been unsuccessful after three years, US phone companies should be able to ask the commission to intervene on their behalf.

The commission should then require all US phone companies to terminate their agreements with the foreign company which refused to cut accounting rates. After that, the commission would either direct US companies to stop paying the foreign company until a new deal had been negotiated, or it would set a new rate itself.

This proposal is likely to be controversial among foreign telephone companies which collectively receive $2.5bn a year from the US under the accounting rate system. It is unlikely to affect the UK, however, since both British Telecom and Mercury Communications recently agreed to cut accounting rates with AT&T by half.

AT&T was responding to proposals from the Commission which are designed to drive down international call charges and accounting rates.

The FT revealed earlier this year that customers across the world were being overcharged more than $10bn annually as a result of excessively high call charges which are underpinned by the accounting rate system.

# Racal to study rail plan

A CONSORTIUM led by Racal Electronics of the UK has been chosen by Europe's railways to study the feasibility of building a pan-European telecommunications network alongside their tracks to compete with the system run by Europe's telephone companies, writes Hugo Dixon.

The plan is opposed by the telephone companies, most of which retain monopolies over basic phone services, but has some support among officials at the European Commission.

The scheme could become practicable after 1993 when the Commission is due to review whether member states should open up basic phone services to competition.

As economic conditions worsen, demonstrators in Leningrad yesterday held up banners saying 'No to the dictatorship of shopkeepers' and 'Private owners get out of the party'

# Soviet statisticians issue gloomy catalogue of economic failure

By Quentin Peel in Moscow

THE Soviet government has published a string of economic statistics underlining the accelerating decline of the Soviet economy over the first nine months of the year.

The figures show an absolute drop in industrial production as a whole, oil industry production, capital investment, housing starts, and in many items of food production.

At the same time, they reveal that money incomes have been growing at double the planned rate for the year, nearly twice as much money was issued as the previous year, and the inflation rate is now admitted to be 9 per cent.

Warning of "a further increase of crisis phenomena," the state statistics committee warned of "the loss of capacity to manage the national economy, broken economic ties, agreements and contracts not observed, and waning labour discipline."

The only ray of light from the nine-month figures came from output of consumer goods, with relatively rapid growth in production of items such as colour televisions, tape recorders, washing machines, and video recorders – although all from very low bases.

The other piece of good news for the government at the weekend was the postponement of industrial action in the key West Siberian oilfields, where up to 40,000 engineers and technicians had been threatening mass resignation.

A top level meeting of government officials in Nizhnevartovsk, the main town for the giant Samotlor oilfield, agreed to investigate breakdowns in technical supplies, according to Reuters news agency.

Official Soviet statistics must be treated with caution, because they are based on a tradition of falsification from the individual enterprises and state farms to the very top, and because they fail to reflect the importance of the black market economy.

In foreign trade, the statistics show a sharp contraction in Soviet exports. Imports rose fractionally.

John Lloyd adds: A prominent Soviet economist has forecast unemployment in the Soviet Union rising to 15 per cent, with a drop in output of at least 25 per cent, over the next two years.

Dr Vladimir Popov, who attracted attention for his advocacy of heavy foreign borrowing to maintain consumption during the transition to the market economy, told a conference in Cardiff at the weekend: "I doubt if there is now a government, or any possible team of people, available in the Soviet Union who could persuade the people to accept the coming sacrifices without strikes."

## WORLD ECONOMIC INDICATORS

INDUSTRIAL PRODUCTION (1985 = 100)

| | | | | | % change over previous year |
|---|---|---|---|---|---|
| | Sept.'90 | Aug.'90 | July.'90 | Sept.'89 | |
| US | 117.3 | 116.9 | 116.8 | 114.6 | +2.4% |
| | Aug.'90 | July.'90 | June.'90 | Aug.'89 | |
| U.K | 109.0 | 109.6 | 113.4 | 111.0 | -1.8% |
| Japan | 127.4 | 127.0 | 124.8 | 120.7 | +5.6% |
| W.Germany | 117.7 | 116.1 | 116.2 | 112.8 | +4.3% |
| France | 114.3 | 114.3 | 111.9 | 111.6 | +2.4% |
| | July.'90 | June.'90 | May.'89 | July.'89 | |
| Italy | 117.6 | 116.4 | 119.0 | 118.5 | -0.8% |

Source: (except US) Eurostat

# Germans in Atlantic cable plan

By Hugo Dixon

A PRIVATE German electricity company is lobbying the German government to be allowed to build a transatlantic telecommunications cable in a move which could threaten the monopoly over basic voice communications held by Bundespost Telekom.

Preussen Elektra, a large power-generating company based in Hamburg, wants to lay a submarine fibre-optic cable between Germany and the US in a project which could cost $500m. Not only would this introduce more competition into the German market, but it would also make the international telecommunications market more competitive.

Currently, there are no transatlantic cables landing in Germany. All transatlantic cables end in the UK, France or Spain, meaning that telephone calls have to be routed via these countries rather than going direct to Germany, so adding to costs.

Preussen Elektra intends that the cable would serve not only the German market, but would also help Germany become a telecommunications hub for much of Europe. Following the unification of West and East Germany and the opening up of eastern Europe, it believes that Germany could act as a gateway to the east and also route traffic to Scandinavia, Benelux and other parts of Europe.

Under a new telecommunications law which came into effect last year, the Bundespost has retained a monopoly on basic voice communications. However, Mr Christian Schwarz-Schilling, the German Telecommunications Minister, has the right to make exemptions to the monopoly in certain cases. The German government's policy towards telecommunications has become significantly more liberal in recent years.

Preussen Elektra would also need approval from the US regulatory authorities to land the cable in North America.

It is understood to be negotiating with Submarine Light Wave Cable Company, a group registered in New York which has already been granted a licence to land a transatlantic cable in the US.

TeleColumbus, a Swiss telecommunications group, owns 20 per cent of this cable company but the other owners are not known.

## INTERNATIONAL NEWS

# Norway boosts EC links by tying krone to the Ecu

By Robert Taylor in Stockholm

NORWAY today links its currency to the European Currency Unit. The move stops short of associating the krone with the exchange rate mechanism of the European Monetary System but will be seen in Brussels and Oslo as an important step in the country's links with the EC.

The value of the krone is to be set at NKr7.9940 per Ecu and it will be allowed to fluctuate above and below that figure by 2.25 per cent, between NKr7.8141 and NKr8.1739.

Mr Arne Skauge, finance minister, said the decision reflected the government's priority to maintain a low level of inflation, which is running at just under 4 per cent a year at the moment.

In recent months the Norwegian krone has been stable against the Ecu, reflecting the underlying strength of the country's economy.

Over the past ten months the Ministry of Finance in Oslo has been making inquiries with the European Commission in Brussels on the possibility of linking the krone to the EMS but this is not really possible unless Norway becomes a full member of the EC.

Jan Syse: coalition divided over Europe

However, the centre-right coalition of prime minister Jan Syse is divided over the European issue with an open split between the anti-EC Centre party and the Conservatives over the current EC-European Free Trade Association talks on the creation of a European Economic area.

# EC urged to adopt liberal trade policy

By Guy de Jonquières, International Business Editor

THE European Community will realise the full economic benefits of the single market only if it combines removal of internal barriers with a liberal international trade policy, according to a study by a senior economic adviser to the Commission.

The study to be published shortly by the Centre for Economic Policy Research, finds import competition from outside the EC provides a much more powerful stimulus to industrial efficiency and adjustment than does increased intra-Community trade.

The study is based on an analysis of the impact of different types of imports on the prices and profit margins of a range of European industries. It finds that only imports from outside the EC exert any disciplinary effect on margins.

It forecasts that the removal of internal trade barriers will only affect sectors currently protected by exceptionally high non-tariff barriers, where it expects a reduction of about 15 per cent in margins.

The study is by Professor Alexis Jacquemin, an economic adviser to Mr Jacques Delors, president of the Commission, and by Mr André Sapir of the Free University of Brussels.

*Working Paper No. 474, CEPR, 6 Duke of York Street, London SW1. Tel : 071-930 2963.*

## The Brussels commission argues the case for European economic and monetary union

# Emu would bring stability and lower costs

THE EUROPEAN Commission sees these advantages in economic and monetary union:

### Growth and Efficiency

1. Emu would completely eliminate nominal exchange rate variability, which in recent years has averaged 0.7 per cent a month for Exchange Rate Mechanism currencies and 1.9 per cent for non-ERM currencies (in terms of each currency against all other EC currencies). It would also eliminate uncertainty, which interest rate premiums show to be considerable even where actual exchange rates have been stable.

2. Only a single currency completely eliminates the transaction costs of exchanging currencies. These costs are not trivial for businesses, and can be sizeable for small transactions between persons and for tourists. They add up to at least 0.5 per cent of Gross Domestic Product a year (between Ecu13bn and Ecu19bn or £9bn-£13bn) for the EC as a whole, and up to 1 per cent for smaller member states.

3. Going beyond the single market measures of the 1985 White Paper, additional economic advantages can be secured by further measures in such fields as energy, transport, competition, research and development, environmental and taxation policies.

4. The combination of the 1992 programme and Emu could well translate into not only considerable once-and-for-all gains, but also dynamic gains (a higher sustainable rate of economic growth). Estimates show that a moderate reduction in the risks of investment (such as exchange rate uncertainty) could have a substantial long-term growth effect. Reduced uncertainty would permit a reduction in the rate of return on investment demanded by shareholders, leaving more funds for reinvestment and growth; reduction of only 0.5 per cent in this rate of return could, over the long term, lead to a real output gain accumulating to 5 per cent of GDP.

### Price stability

5. Price stability is itself advantageous for efficient resource allocation. Low inflation is associated with low variability of inflation, and therefore of relative prices. A 1 per cent decrease in relative price variance could increase real output by 0.3 per cent of GDP.

**Cost savings of a single EC currency**

| | estimated range (Ecu bn) |
|---|---|
| Bank Transfers | 6.4-10.6 |
| Bank notes, travel cheques, credit cards | 1.8-2.5 |
| Company in-house costs | 3.6-4.8 |
| Cross-border payments costs | 1.3 |
| Total | 13.1-19.2 |

6. The EuroFed (the planned European federal central bank) will be most likely to secure price stability if its statutes establish this as its priority duty and grant it political independence to fulfil this duty. The actual price stability of independent central banks is clearly positive.

7. The reduction of inflation to a common very low rate could be achieved at minimal transitional cost through clear political commitment to a EuroFed of this design, to become fully operational at a not too distant date.

### Public finance

8. The role of national budgetary policies will be substantially revised, with new needs for autonomy to permit flexibility combined with enhanced discipline over excessive deficits and co-ordination to ensure an appropriate policy mix for the Community.

9. Lower inflation will mean lower "inflation tax" revenue (or seigniorage, coming from the issue of currency) for high inflation countries. This would mean a yearly loss, say during a period of five years, of some 1 per cent of GDP for Greece and Portugal and less than 0.5 per cent for Spain and Italy.

But gains for interest payments on the public debt and the allocation of capital could come from the equalisation of real interest rates. Imperfect credibility of exchange rate commitments implied a real interest rate differential of 1 to 2.5 per cent for EMS countries relative to Germany on average over the period 1985-89. So equalisation of real interest rates could compensate "inflation tax" losses in the high inflation countries through gains, during the transition to Emu, on interest payments of between 2 and 5 per cent of GDP.

10. Competitive pressures should increase the efficiency of public expenditure and taxation, but in some cases the Community may have to establish minimum tax rates and co-operate in the provision of public goods to avoid inefficient outcomes.

### Adjustment without exchange rate changes

11. The main cost of Emu is the loss of the national monetary and exchange rate instrument.

This cost should not be exaggerated, since use of this instrument has already largely been renounced within the ERM, while changes will remain possible for the Community as a whole in relation to the rest of the world.

12. Changes in real exchange rates (competitiveness) remain possible and desirable within an Emu, and examples from federations show that this is not just a theoretical possibility. This is why wage and price flexibility is a necessary condition of success.

13. Emu will reduce the incidence of country-specific shocks that warrant real exchange rate changes, as a result of changes in industrial structure and wage bargaining.

In addition, shocks resulting from exchange rate instability and unco-ordinated monetary policy will be eliminated, and so the variability of output and inflation reduced.

14. Emu would lower the cost of absorbing economic shocks. For example, simulation of the past two decades (which were a turbulent period) under alternative exchange rate regimes suggests that Emu with a single currency might, compared to the EMS of the mid-1980s, witness a reduction in inflation fluctuations of one-fourth (0.6 to 1.5 percentage points less variation) and of output growth fluctuations by one-fifth (0.3 to 0.7 percentage points less variation).

### International system

15. As the Community's single currency, the Ecu will develop into a major international currency, resulting in several kinds of financial advantage for the Community's economy.

There will be a saving on transaction costs in international trade amounting to 0.05 per cent of Community GDP, more Ecu-dominated financial issues managed by European banks, a saving of about Ecu160bn in the Community's foreign currency reserves (because intra-Community trade and financial flows would all be in Ecus), and seigniorage gains on foreign holdings of Ecu notes.

16. Emu should facilitate international co-ordination, and give more weight to the Community in encouraging developments of the world policy mix favourable to its interest. It should also facilitate establishment of a balanced tri-polar regime.

*Drawn from "One Market, One Money", European Economy No 44, October 1990, European Community Publication Office, 2 rue Mercier, L-2985 Luxembourg.*

# Smaller member states stand to gain from move towards single currency

By David Buchan in Brussels

TWO SETS of European Community countries stand to benefit particularly from economic and monetary union (Emu) – those with small, open economies and with currencies little traded internationallly, and those with unsophisticated financial markets.

This is one of the main conclusions from the European Commission's 350-page economic analysis of Emu which the 12 EC states are starting to negotiate.

Into the first group of particular beneficiaries fall Belgium-Luxembourg (already in a bilateral monetary union), Ireland, Denmark and to a lesser extent the Netherlands. They would gain from having their national currencies replaced by the Ecu, which would be used far more widely in international payments, though the gain to Denmark from the removal of exchange rate uncertainty and costs might be slightly less, because it does rather more trade with non-EC (Nordic) countries.

The second group – Greece, Portugal and to some extent Spain – have "larger transitional costs to overcome, but bigger gains on offer" from Emu, says the report. Emu would greatly help unify Europe's financial market, lowering the price and increasing the volume of potential credit to borrowers in the lagging regions.

"By contrast, the reduction in transaction costs and uncertainty would not be so important for Germany, a sizeable proportion of whose trade is already invoiced in D-Marks," the report says. But Germans investing in the rest of the EC should be happy to see exchange rate risk disappear, while any eventual replacement of the D-Mark by the Ecu would relieve the German authorities of pressures of running an important reserve currency which, otherwise, will be in particularly strong demand as a parallel currency in Eastern Europe.

For other large EC states, the report says Emu would help them impose and maintain wage and price discipline, while for the UK it sees gains in "the elimination of concerns about financing external deficits" and in "an expansion of activity in financial services" in a fully integrated Emu.

Apart from establishing EC states' varying self-interest in Emu, the Commission report throws up controversial implications for EC policy on:

- Structural economic assistance to the poorer countries. The report urges "more active Community structural policies" to accompany Emu. But it suggests that in future more of the available money should be skewed to the two most backward countries, Greece and Portugal, and that the requirement that this EC aid be "matched" by local expenditure should be relaxed if Athens and Lisbon are to stem their budget deficits.

- Labour market regulation. The report warns that regional differences in labour costs must not close faster than those in labour productivity. Otherwise, regional pockets of unemployment will get worse. "It is of paramount importance that regional labour costs remain in line with productivity differentials," it says.

In the early days of planning its Social Charter and social action programme, the Commission had talked of regulating pay EC-wide. Such ideas have since been shelved and the report shows why they should remain so.

According to standard theories about "optimal currency areas", the European Community is ill-suited as a geographic unit to have a single money because labour is not sufficiently mobile within it. The Commission report acknowledges that Europeans move around less within the EC than Americans within the US. But it claims that expectations from Emu, such as achieving new price stability and changes in governments' behaviour, make an EC monetary union "strongly advantageous".



## CONTRACTS & TENDERS



## RENTALS



## ART GALLERIES





## LEGAL NOTICE

COMPUTER INVESTMENTS LIMITED

NOTICE IS HEREBY GIVEN, pursuant to section 48(2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above-named company will be held at:
Oriel House, 55 Sheep Street, Northampton NN1 2NF
on 5.11.90 at 11 am for the purpose of having laid before it a copy of the report prepared by the administrative receiver(s) under section 48 of the said Act. The meeting may, if it thinks fit, establish a committee to exercise the functions conferred on creditors' committees by or under the Act.

Creditors are only entitled to vote if:

(a) they have delivered to us at the address shown above, no later than noon on 2.11.90, written details of the debts they claim to be due to them from the company, and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and

(b) there has been lodged with us any proxy which the creditor intends to be used on his or her behalf.

Please note that the original proxy signed by or on behalf of the creditor must be lodged at the address mentioned: photocopies (including faxed copies) are not acceptable.

Date: 12 October 1990
N.R.B. Godden
Joint Administrative Receiver

Note
Creditors may obtain a copy of the report, free of charge, on application to the administrative receiver(s) at the address shown above.

## LEGAL NOTICE

This notice is in substitution for which appeared in this newspaper on October 18th, 1990.

Hallmore & Young Joinery Limited
(In Receivership)

NOTICE IS HEREBY GIVEN, pursuant to Section 48 of the Insolvency Act 1986, that a MEETING of the unsecured CREDITORS of the above named company will be held at Cork Gully, 9 Greyfriars Road, Reading RG1 1JG, Berkshire, on 26 October 1990 at 10.00 am, for the purpose of having laid before it a copy of the report by the administrative receivers under section 48 of the said Act. The meeting may, if it thinks fit, establish a committee to exercise the functions conferred on creditors' committees by or under the Act.

Creditors are entitled to vote if:

(a) they have delivered to us at the above address, no later than 12 noon on 25 October 1990, written details of the debt they claim to be due to them from the company, and claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and

(b) there has been lodged with us any proxy which the creditor intends to be used on his behalf.

Dated: 11 October 1990

N J Vooght
Joint Administrative Receiver

**IN THE MATTER OF MONTEVERDI ONYX LIMITED AND IN THE MATTER OF THE INSOLVENCY ACT 1986**

NOTICE IS HEREBY GIVEN that the Creditors of the above named company, which is being voluntarily wound up, are required, on or before the 27th day of November 1990 to send in their full christian and surnames, their addresses and descriptions, full particulars of their debts or claims, and the names and addresses of their solicitors (if any) to the undersigned SURJIT KUMAR SINGLA, FCA of SINGLA & COMPANY Chartered Accountants 49 Queen Victoria Street, London EC4N 4SA, the Liquidator of the said company, and if so required by notice in writing from the said Liquidator, are personally or by their solicitors, to come in and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

DATED this 27th day of September 1990

S.K. SINGLA
Liquidator

**SPEEDWORDS LIMITED**

We, Nigel John Vooght and John Martin Iredale of Cork Gully, 9 Greyfriars Road, Reading, RG1 1JG, were appointed Joint Administrative Receivers of Speedwords Limited.

Registered No: 160174

by National Westminster Bank Plc on 12 October 1990.

N J Vooght
Joint Administrative Receiver

## COMPANY NOTICES

## UK NEWS

### NEWS IN BRIEF

## Anti-poll tax marchers charged

NINETY-ONE people have been charged and 30 of them will appear in court today in connection with the violent anti-poll tax demonstrations outside Brixton Prison, south London, on Saturday night.

There were 120 arrests, three petrol bombs were thrown and five shops damaged. Mr David Waddington, the home secretary, has demanded a full report from Sir Peter Imbert, the Metropolitan Police commissioner, on the disorder.

### Business rates owing

LOCAL councils in England are owed more than £1bn in unpaid business rates, according to a survey of 32 councils by the Local *Government* Information Unit, a body supported by trade unions.

The survey found that nearly 25 per cent of the business rates that local authorities had expected to collect by the end of August had not been paid.

### Opera sponsorship

3M, the US-owned industrial group, is to sponsor the Welsh National Opera Company over the next three years, enabling it to stage three Verdi revivals – La Traviata, Ernani and Un Ballo in Maschera. The sponsorship will also permit week-long residencies at the company's Cardiff base for student singers and répétiteurs from the *National Opera Studio*.

### BBC appointment

MR Robin Walsh, 50, is to be the controller, BBC Northern Ireland, following the retirement of Dr Colin Morris. Mr Walsh, an Ulsterman from Londonderry, is at present the assistant controller, regional broadcasting.

### Visa favourites

AUSTRALIA is the most popular destination for visa requests from business travellers, followed by India, Nigeria and the Soviet Union, Thomas Cook, the travel agency group, says. Until the relaxation of visa restrictions at the beginning of this month, Hungary and Czechoslovakia were also top destinations.

## Smith urges end to off-shore trust tax 'loophole'

**By Alison Smith and Sara Webb**

THERE WAS mounting pressure on the government yesterday to change the law on off-shore trusts, in order to close a "loophole" which allows people to avoid capital gains tax.

Mr John Smith, the shadow chancellor, called at the weekend for ministers to bring forward legislation to close the loophole at the start of the new parliamentary session early next month.

Senior Tory backbenchers agree that this part of the Finance Act 1981 could legitimately be tightened, although they are more cautious about how the law should be amended without creating new loopholes or absurdities.

The pressure follows an article yesterday in The Sunday Times, which said that up to £1bn a year in tax revenue was lost through the transference of assets into off-shore trusts in order to avoid 40 per cent capital gains tax.

If an investor puts his assets, such as shares in the family business, into a trust based in an off-shore centre such as the Channel Islands, Gibraltar, Bermuda, or the British Virgin Islands, any gains made as a result of selling the shares remain free of capital gains tax as long as the proceeds are not remitted to the UK.

The tax liability can be deferred until the capital is paid to a UK resident beneficiary, and can sometimes be avoided altogether if, for example, the investor retires overseas and becomes non-resident for UK tax purposes before taking the proceeds.

In a letter to Mr John Major, the chancellor, Mr Smith said: "I hope you appreciate the sense of outrage which is felt by millions of taxpayers in this country, who pay the full amount of taxes due by them, at the fact that others – who are much better placed financially – are able so easily and so effectively to reduce their tax liability by huge amounts."

John Smith: "One person's tax dodge is another's tax burden"

"One person's tax dodge is another person's tax burden," he added.

Tightening of this area has been considered for inclusion in previous budgets. There was a surge in off-shore trust business before the Budgets this year and last, at fears that the loophole would be closed.

The Inland Revenue said yesterday that this area was being reviewed, although the point was made that it was not the case that the legislation had been intended to do something which people had then found a way of circumventing.

There is no prospect of an immediate bill on the matter. The issue will be raised in next year's finance bill, when the government faces an opposition or backbench amendment if ministers decide not to act.

## Shell may face charge over alleged oil leakage

**By John Hunt, Environment Correspondent**

SHELL UK is likely to be prosecuted for the second time in a year by the National Rivers Authority, the pollution watchdog, for allegedly leaking oil into the River Mersey.

In February Shell was fined £1m, the highest fine ever recorded in a UK pollution case, after 30,000 gallons of heavy Venezuelan crude oil was discharged into the Mersey in the previous year from a factured pipeline. The new incident, which occured last month, again concerns the Stanlow refinery in Cheshire. On this occasion 500 gallons of light fuel oil were allegedly discharged into the Mersey.

Mr Eric Barker, north-west regional pollution officer for the NRA, yesterday confirmed that he had recommended Shell should be prosecuted over the latest incident.

He said the oil came from an outfall pipe where Shell had permission – known as a consent in the trade – to discharge up to a given level. The NRA was claiming that the discharge on this occasion was over the permissible limit.

A new prosecution would be a great embarrassment to Shell at this time. The environmental pressure group, Greenpeace, has targeted the company as part of its campaign to clean up the Mersey.

Greenpeace mounted demonstrations in the area last week and claimed that the Mersey is still being heavily polluted despite the existence of a co-ordinated campaign by local industrialists to improve the water quality in the river.

● Government plans to circulate to all schools free copies of the summary of the environment white paper have been condemned by Labour as showing a "cavalier disregard for impartiality", writes Alison Smith.

Mr Bryan Gould, the shadow environment secretary, has written to Mr Chris Patten, the environment secretary, demanding either that the Conservative party pays for the document's circulation, or that the government sends out free copies of publications from other parties as well.

## Call for curbs on British Gas prices

**By David Thomas Resources Editor**

*THE RULES governing* the ability of British Gas to raise prices should be tightened considerably, according to a paper published today by the Gas Consumers' Council.

The paper is the council's submission to the review of the British Gas price control formula which is being carried out by the Office of Gas Supply, the industry's regulator.

At present, British Gas has to peg annual price rises to most customers to two percentage points below inflation after allowing for gas purchase costs. The council argues that this formula is too lax and allows British Gas to make unnecessarily high profits.

"Compared with other utilities and industries with similar levels of risk and capital intensity, British Gas shows a very healthy rate of return which has increased significantly since privatisation," the council says. It suggests the formula should be automatically adjusted if inflation increases, since the existing formula becomes less exacting for British Gas when inflation rises.

The council challenges the ability of British Gas to pass on all its gas purchase costs to customers, arguing that this provides no incentive for the company to seek out cheaper sources of supply. It also demands fixed rates of compensation if British Gas fails to meet standards of service.

*"British Gas Tariff Review Formula"; from the Gas Consumers Council, Abford House, 15 Wilton Road, London SW1V 1LT.*

## Small generators threatened by privatisation says report

**By Juliet Sychrava**

THE PRIVATISATION of the electricity market will make life more difficult for the independent generating companies, according to a report from the Association of Independent Electricity Producers.

The association, a critic of government claims that the electricity reforms will encourage competition, argues that the restructuring of the electricity market will give an *unfair advantage to National* Power and PowerGen.

The report said that because National Power and PowerGen charged the regional electricity boards an inflated price of around 2.8p per unit for contract supplies, they could afford to cut their prices in the wholesale market to around 2.2p per unit.

Smaller producers, which do not have the protection of attractively-priced contracts, cannot stay in business at these artificially low prices.

The report says that as regional electricity boards pass on the higher cost of contract electricity to their customers, *they are forcing consumers* to subsidise National Power and PowerGen.

*Pool Price: A Fair Price for Electricity?; available from Herodsfoot, Liskeard, Cornwall PL14 4QX; £100.*

## British Coal pays rebates

BRITISH COAL has had to pay rebates to the electricity industry because it failed to predict the upsurge in value of the pound, writes David Thomas.

Provisions for rebates linked to the exchange rate are contained in confidential clauses of the three-year coal supply contract between state-owned British Coal and the soon to be privatised electricity industry.

British Coal has had to pay a relatively modest rebate for the first six monthly period covered by the contract – April to September – since the pound has been trading above the $1.75 trigger point only since June 27.

However, the Gulf crisis and Britain's entry into the exchange rate mechanism of the European Monetary System seem likely to keep the pound above $1.75 for the whole of the second period – October to December – triggering rebates from British Coal of millions of pounds.

## Sharp rise in exports boosts car production

**By Kevin Done, Motor Industry Correspondent**

*A SHARP increase* in exports enabled the UK motor industry to boost car production by 8.6 per cent last month, although commercial vehicle production fell by 20.1 per cent.

The latest figures from the Central Statistical Office show that 110,548 cars were produced in the UK in September, compared with 101,817 in the same month last year.

This increase was due to exports and was supported by rising output at Nissan and General Motors (Vauxhall) for export to continental Europe. Production of cars for export jumped 73.1 per cent in September to 36,765.

By contrast, output for the domestic market, at 73,783, was 8.4 per cent lower and followed the fall in UK new car sales, which have declined by 11.5 per cent in the first nine months of this year. UK car production in the first nine months, at 986,059, was 5.3 per cent lower than the same period a year ago. A seven-week closure of Ford's Halewood assembly plant at Merseyside by industrial action restricted output in the early months of the year.

On a seasonally adjusted basis, car output in the last six months was was 9 per cent higher than the previous six months but was unchanged on the same period last year.

Commercial vehicle output in September fell to 21,718 and in the first nine months output fell 14 per cent on the same period a year ago.

On a seasonally adjusted basis, commercial vehicle output in the last six months was 7 per cent lower than the same time last year.

## Venture capital plan by Birmingham

**By Paul Cheeseright, Midlands Correspondent**

*BIRMINGHAM'S financial* and professional service companies have banded together to attract more venture capital groups, merchant banks and foreign banks to the city.

The initiative springs from the realisation that, although Birmingham is second only to London in the range of financial services it can provide, the city is not yet perceived in national business circles as being strong in the provision of specific services.

A survey conducted by KPMG Peat Marwick McLintock found that Manchester was perceived to be strong in the merchant banking and venture capital business; Leeds in the provision of legal services; and Edinburgh in fund management activities.

Birmingham – City 2000 was formed last year by more than 150 professional and financial service companies. It aims to establish Birmingham as a natural alternative to London's financial centre.

The private sector initiative – which becomes an established organisation this week – complements the work of Birmingham City Council. Since the early 1980s the council has sought to strengthen the service sector to reduce Birmingham's dependence on manufacturing.

While manufacturing jobs have been lost in the area, service sector employment has increased and seems set to rise further. In its latest economic survey, published today, Birmingham Chamber of Commerce found that more than 80 per cent of service companies in the area plan to increase or maintain investment.

# Headmasters reject A level reform plan

By Norma Cohen, Education Correspondent

THE Headmasters' Conference, a group of influential independent schools, has decided to oppose plans by the government's own advisers for a wide-ranging reform of A level studies, arguing that the plans will undermine the rigour of the exams.

The HMC, whose members include some of the nation's most prestigious public schools including Eton and Winchester, has developed its own plan for A level reform which is far more modest than that proposed by the government's advisers.

Mr John MacGregor, the education secretary, has said he favours only the mildest changes to A level studies and has endorsed the views of the HMC.

Mr MacGregor had asked the independent Schools Examinations and Assessment Council to make recommendations on how to broaden post-16 studies mostly with a view towards increasing the number of those who stay in school beyond the age of 16.

The HMC said its members believe the proposals "contribute little if anything to further the objective of substantially increasing the number of pupils in the 16-19 age group staying on in full-time education".

That objective, it said, cannot be met by a unitary system of A level standard.

Instead, a new intermediate exam between GCSE and A level should be developed.

Among SEAC's main proposals, announced last month, are plans to integrate so-called core skills into each A level syllabus.

Also, coursework would be given a significant role in determining each student's grade.

It also proposed that the narrower – but equally rigorous – AS level exam be the first step towards completion of A levels.

The HMC argues that the latter proposal will lead to the eventual phasing out of A levels completely.

The HMC is also firmly opposed to the integration of core skills, arguing that to introduce these could distort A level studies.

It also expressed concern that the substantial use of coursework as the basis for grades will reduce the objectivity of assessment.

HMC furthermore said it opposes some of the philosophical assumptions in the SEAC report, particularly its view that curriculum should be rooted in the immediate interests of young people.

Instead, HMC argues, curriculum should contain that which is "perennial, difficult and remote from their immediate experience".

It also opposes the view that attitudes should be culture-free.




Employing 16,000 in its heyday: Cammell Laird, nationalised in 1977, had barely 1,200 workers by 1985

# Warship yard steels itself for a tempestuous future

**David White** considers Cammell Laird's prospects

DEADLINE for Cammell Laird, which has been building ships on Merseyside since they were first made of metal, is no more than a few months away.

VSEL, owner of the Birkenhead yard, has given itself until early next year to find a buyer among the 60 British, European and overseas companies it has identified as "potential" bidders. But it will not wait much longer before closing the yard.

If Cammell Laird does survive, it will not be as a builder for the Royal Navy, which today has 11 of its warships and submarines in service.

VSEL, which took the former Vickers shipyards at Barrow-in-Furness and Cammell Laird into the private sector in 1986, would need the government's agreement to sell the Merseyside operation to a foreign company. However, the remaining navy work at Birkenhead could be transferred to VSEL's Barrow site. This involves three diesel-electric patrol submarines: Unseen, now being fitted out, Ursula, and Unicorn, the last due for completion in 1992.

In the last year, Cammell Laird has been holed, first above and then below the waterline. Since it was attached to the former Vickers yards five years ago, before privatisation, it has been devoted to navy work. But it has been excluded from the new frigate programme, the Type 23, and its hopes of making more patrol submarines have been dashed.

The navy got off relatively lightly in the government's Options for Change defence review outlined in July. The shipbuilding industry has nonetheless been the biggest victim so far. Overcapacity is such that any setback has life-threatening consequences.

Even if Cammell Laird is sold, redundancies are considered inevitable among its 2,100-strong workforce. The five UK yards still making warships and submarines have counted on strategic interests to keep them in being: the requirement for national capacity both to build and to refit ships in the event of war.

Warships are a bastion of protectionism, not just in Britain but wherever ships are built. The UK has played a pioneering role in Europe in trying to open up cross-border trade in most other kinds of weapons, but shipyards have been kept apart. As for international collaboration, the only major warship project involving the UK, an eight-nation Nato frigate, was scuppered last year by Mrs Margaret Thatcher, the prime minister, after the Treasury found fault with the programme planning.

The threat of closure comes as no surprise to employees at Cammell Laird. The company - formed in 1903 when Laird Brothers of Birkenhead merged with the Sheffield steel company Charles Cammell – had already been through ups and downs. In its heyday, it employed more than 16,000 people. After the Second World War, during which it built 106 fighting ships, various activities were separated. Nationalised in 1977 with other shipyards, it found itself in 1985 with barely 1,200 employees. It had virtually completed the Edinburgh, a Type 42 destroyer, and had only one other order. That last Navy surface ship, the Type 22 frigate Campbeltown, entered service last year.

Under VSEL, privatised by an employee-led buyout, the workforce was built back up to 2,500 at one stage. The new owner, which was building the first of the new Upholder class of diesel-electric submarines, brought Cammell Laird back into the submarine business and gave it work building steel sections for nuclear-powered submarines at Barrow.

In the 1960s, Cammell Laird had been involved in nuclear-powered submarines, building two of the UK's four Polaris ballistic missile boats and HMS Conqueror (which sank the Argentinian cruiser General Belgrano in the 1982 Falklands conflict). VSEL now has a monopoly in the UK on nuclear-propelled submarines. Under pressure to reduce costs, it has also announced cuts involving 550 of its 14,000 jobs at Barrow.

Cammell Laird competed to join the Type 23 programme, but the 10 orders placed so far have been split between Yarrow, the Glasgow subsidiary of GEC, and Swan Hunter of Tyneside. In July, the Ministry of Defence dropped its long-standing pledge to maintain a fleet of "about 50" destroyers and frigates. It will now be "about 40" – not the most drastic of cuts, but no boost to the prospects of another yard joining the programme.

Apart from the strategic missile fleet, to remain at four submarines, submarine numbers are to drop from 27 to 16, of which 12 will be nuclear-powered. This implies that plans to replace the navy's 10 Oberon class boats with Upholder class vessels will stop at the four vessels already ordered. Cammell Laird's future hinged on winning more. In surface warships, the question as to whether the business could sustain up to four yards has long been in the air.

Vosper Thornycroft of Southampton, enjoying a special niche in minehunters made of glass-reinforced plastic and patrol boats, decided against competing for the last Type 23 order. The MoD wants to maintain competition to keep prices coming down in real terms. Since foreign competition has never been contemplated, this implies at least two UK yards. It is true, however, that many would question that there is in fact room for two.

Stung by the Ministry of Defence's decision last December to build the next three Type 23s at Swan Hunter, Yarrow is now threatening to cut 550 of its 3,500 jobs on the Clyde if more navy orders do not come quickly.

There, too, the future after 1992 is a big question-mark. These days, the warnings from the builders of fighting ships are dark, and come in volleys.

**UK NEWS**

# Wounds heal as riots give way to 'responsible politics'

This week Mr Peter Brooke, Northern Ireland secretary, will be trying at a meeting of the Anglo-Irish conference to give renewed momentum to what has been the most determined ministerial effort in many years to break the political deadlock in the province. He has involved the main parties in the north – with the exception of Sinn Fein – and the Irish Government in discussions which he hopes will lead to formal talks on new political structures for the province. But the success of the initiative will ultimately depend upon its acceptance within the nationalist and loyalist communities. **Jimmy Burns** has visited both communities to assess whether, after more than 20 years of the "troubles", their mood and willingness to make compromises has changed. In the first of two articles, he talks to the Catholic community in Londonderry.

Paddy Doherty: "I remember as a young man the feeling of being repressed, of being a second-class citizen"

IF ONE looks down at the Bogside from the city walls of Londonderry, where the first civil rights march in 1968 sparked off the Northern Ireland "troubles", the steeple of Bishop Daly's St Eugene's Cathedral now towers above any other building.

The nine-storey Rossville flats, where the fighting took place on Bloody Sunday, have long since been torn down. At the street intersection known as "aggro corner", once the scene of barricades and burned-out cars, there is now a community centre and parking lot. Beyond, rows of renovated semi-detached houses fronted by trim hedges rise up the hill. There is not a ruin in sight.

It could almost be somewhere in northern England were it not for the military observation posts, the rolls of barbed wire along the city walls, the army patrols, and an IRA mural.

The Catholics of Derry – as they call Northern Ireland's second largest town – still do not trust the army or the police, and there remains an underlying if somewhat poorly-defined sense of Irish nationalism. But the community is no longer as cemented as it once was in its hatred of the British and its resolve to have nothing to do with the Protestant community.

Incidents of sectarian violence are rare nowadays and it is many years since the army had to confront a whole community on the streets. Within the city walls, redevelopment, backed by a mixture of private investment and government subsidy, is transforming Londonderry. The wounds are healing visibly, although perhaps not as quickly or as widely as Mr Peter Brooke, the Northen Ireland secretary, would like.

Change is personified by the figure of Mr Paddy "Bogside" Doherty, a former civil rights leader who now heads the Inner City Trust, a community-based development board which channels resources into regeneration. The trust, which has Protestants on its governing board and within its workforce, has provided funds for houses, workshops, and research centres, many built on the site of buildings destroyed by bombs.

"I remember as a young man, the feeling of being repressed, of being a second-class citizen," Mr Doherty says. "This was a city that was virtually dying because of the inability of Protestant officials to apply themselves to any development process. As a Catholic, I no longer feel powerless. I feel I can influence the situation in some way."

The trust and other development initiatives backed by the government have generated a degree of self-confidence among members of the Catholic community. But few Catholics are sure how this can be translated into a lasting political solution.

Mr Doherty's daughter Doreen runs a fabric shop within the craft village the trust has opened. She sees the availability of government money not in terms of newly forged political loyalties but as a window of financial opportunity: "The Thatcher years have been good to us in terms of getting us grants. The community has made the most of it. We've learnt to milk the system."

Anyone who believes that Catholic involvement in government-backed projects inevitably translates into a lessening of republican sympathies should pay a visit to the local offices of the mainly Catholic Social Democratic and Labour Party, which has a majority on the local council.

Mr Mark Durkan, an assistant to the SDLP MP John Hume, remembers his school days, in the early 1970s, spent spitting on the backs of English soldiers. "Among young people at the time there was always a buzz around violence. It gave us something to talk about," he said.

Now a slogan on the wall states: "Bad politicians are elected by good citizens who don't vote." "Responsible politics", including dialogue under the Brooke initiative, are now the buzz words.

Nevertheless, party workers like Mr Durkan insist that local Catholics have more in common with the Republic of Ireland than with Belfast, and that any political solution emanating from Westminster will need to address this "cross-border identity of interest" within the wider context of Europe.

The belief that Dublin must be allowed to have a right of involvement in the affairs of Northern Ireland, however limited, remains about the most moderate position one can find in Catholic Derry. More worrying for Mr Brooke must be the belief among the SDLP grassroots that any eventual political solution will have to take into account the more hard-core Republican loyalties centred on Sinn Fein, the political wing of the IRA.

"No-one should kid themselves that we've got to a situation where Sinn Fein or people of that outlook are going to slide into oblivion," Mr Durkan says.

The traditional recruiting ground for the hardliners is in the Bogside and the working class estates. At the community centre, on the edge of the Bogside, people are not so much milking the system as struggling against it.

For the past six years the centre has been engaged in a battle with the government for funding. In the past, the government has accused the centre of having been infiltrated by the IRA. Those who work there answer that their priority concern is the high male unemployment rate (60 per cent) and the 500 jobs that will be created with the construction of a spinning mill built by Fruit of the Loom, the US clothing company.

For Mr Mike English, one of the centre's workers, the government's failure to create more jobs is one source of complaint. But a deeper one is the presence of British troops, whom he holds responsible for the death of one of his sons during a demonstration.

"I was politicised like 95 per cent of the population here by Bloody Sunday ... I still think there must be an alternative to violence, but no one has proved to me yet that Britain can deliver justice to the Irish."

What is unclear is the depth of support the IRA can count on within the Catholic community. According to Father Eamon Graham, curate of St Mary's, in the Creggan Estate, "most people here now find the IRA more of a problem than the army".

He added: "There are conditions here for a political solution. If politicians only talked to the people, they would realise that a united Ireland is not on people's minds ... the border is only an hour away, but a lot see that the Republic of Ireland is not the utopia it is made out to be. The struggle here has been not over a united Ireland, but over people's rights and sense of identity."

The fate of one Bogsider, Mr Mickey Williams, illustrates the difficulties of translating views into practice. Mr Williams contacted the police on March 1 after he heard a woman neighbour screaming. The woman's house had in fact been taken over temporarily by an IRA unit.

As a result, Mr Williams was declared by the IRA to have acted against the "interests of the community" and was sentenced to death. A father of 12, he had to abandon his family and go into hiding outside Ireland.

Fear of reprisal is one aspect of the community's attitude towards the IRA, but it is not the only one. Even among those Catholics who disagree with the IRA's methods, there are many who respond in outraged terms to tough policing tactics or raids by the army.

Such incidents provide the IRA with a propaganda tool and reinforces reinforce the community's overall conviction as a whole that there is no British justice when it comes to dealing with Catholics.

To this, the security forces reply that the methods they adopt are necessary ones in the fight against terrorism. Although in the words of one member of the security forces in Londonderry: "It is not a war that can be won by security forces alone. The politicians must sort it out. The best we can do is hold out." Mr Brooke would not disagree.

## Thatcher first target of IRA, says McGuinness

MRS THATCHER remains the primary target of the IRA "because of what happened during the hunger strike," according to Mr Martin McGuinness, a member of the executive of Sinn Fein, the political wing of the IRA.

In an interview in the Sinn Fein offices in Londonderry, he indicated that action against any member of the British political establishment and military targets was likely to remain central to IRA strategy.

"Who is to say who the IRA will try to kill next in England? Maybe the target will have no connection with Ireland or British policy in Ireland at all but will be a member of the British establishment who can influence the thinking of Brits with regard to Northern Ireland," he said.

Committed to a withdrawal of British troops and a united Ireland, he believes that the "armed struggle by IRA freedom fighters" is morally justified.

He shares the view of IRA members that their campaign has been successful in disturbing the government and forcing British public opinion to think about Northern Ireland. In the longer term, he is confident that Britain will withdraw from Northern Ireland and accept reunification as the only viable political option.

Mr McGuinness disagrees with the view held by some Sinn Fein members that the republican cause has been damaged by its links with the IRA.

On the contrary, he believes that Sinn Fein owes "a large element of its support" to the "armed struggle taking place between the IRA and the British forces of occupation".

## Automatic payments urged for victims of medical negligence

By Robert Rice, Legal Correspondent

VICTIMS of medical negligence should be entitled to automatic compensation, according to one of Britain's most senior judges.

Lord Griffiths, the Law Lord chosen last week by the Lord Chancellor to head the new Advisory Committee on Legal Education and Conduct, called for the introduction of an automatic compensation system at the weekend's Law Society Conference in Glasgow.

He said the price of introducing such a system would probably be lower levels of compensation, but he believed the public would be "prepared to pay for the certainty of recovery" rather than risk the "lottery of litigation".

Lord Griffiths also urged lawyers to embrace the "cards on the table" approach to litigation recommended by the Lord Chancellor's three-year Review of Civil Justice which was completed in 1988.

More informative pleadings, early discovery of documents and mutual exchange of witness statements would lead to "more and fairer settlements", he said. This change would accelerate the shift from oral to written presentation of trial material, thereby necessitating a change in the working practices of judges.

Lord Griffiths also believed the time had come to give serious consideration to setting a time limit on oral argument. Advocacy was an enjoyable exercise, he said, but it was painful for those who had to pick up the bill and who had to wait so long for their appeals to be heard.

He suggested that, as Britain became increasingly closer both commercially and politically to Europe, the time had come to see whether a common procedure could be worked out for use by all European lawyers in civil cases. The answer, said Lord Griffiths, might lie in a mixture of the adversarial procedure favoured in Britain and inquisitorial approach adoped in continental Europe.

# Treasury chief predicts easier cure for inflation in the 1990s

By Rachel Johnson, Economics Staff

SIR TERENCE Burns, the chief economic adviser to the Treasury, has predicted that inflation in the 1990s will be easier to cure because of its increased sensitivity to demand pressures in the economy.

He said it was now clear that the financial deregulation of the 1980s had the effect of heightening market competitiveness.

This meant demand pressures translated quickly into price increases, and inflation responded less keenly to the traditional impetus of labour costs.

The current weakness of UK corporate profits and the fall in consumer spending is, therefore, helping to squeeze inflation out of the economy faster than originally expected.

Sir Terence presents his analysis of the Treasury's forecasting performance in the second edition of its Bulletin, published today.

In it, the Government opens an inquest into its failure to predict the demand growth of 1987-1988. This failure led to underforecasts of inflation, the current account deficit and the Budget surplus.

In the 1980s, the Government was caught out by the rapidity with which prices rose in reaction to "excess demand". This enabled companies to widen profit margins by passing on rising prices to the consumer.

Demand was largely unleashed by the liberalisation of financial markets and the house price boom. The tax-cutting Budgets of the late 1980s, which unreliable statistics misled the Treasury into framing, then fuelled this demand growth.

Poor statistics compounded policy mistakes. The national accounts series persistently underestimated the strength of the economy with the result that economists had no idea how fast the economy was growing, the Bulletin said.

Sir Terence holds out the prospect that improved forecasting techniques, and a programme of improvements to official statistics, would prevent a recurrence of past policy errors based on poor forecasting.

In the analysis of its poor forecasting performance, the Treasury apportioned blame broadly throughout the forecasting fraternity.

But it admitted its own errors had been larger in recent years, as had those of "most other forecasters".

● The world economy is better equipped now to withstand the impact of higher oil prices than it was in 1973-74 and 1979-80 oil crises, claims the Treasury in the Bulletin, *writes Patrick Harverson.*

Oil is less important today to the global economy, world inflation is under better control and leading industrialised nations are pursuing tighter monetary policies than during the 1970s, says the report.

These factors should ensure that rises in the oil price due to the current crisis in the Gulf will not unduly harm the world economy in the long-run.

The Treasury believes the short-term effects of higher oil prices will be a modest slowdown in economic growth and a slight rise in worldwide inflation, but expects these negative factors to have worked their way out of the system within three years.

Among the world's industrialised economies, the UK should cope better than most with higher oil prices because it is a producer and net exporter of oil, says the Treasury.

However, the report warns that some developing countries could be "hard hit" by the rise in oil prices because their dependence on oil has grown at a time when it has declined among richer industrialised nations.

■ *Treasury Bulletin, Autumn 1990. Available from HMSO, 49, High Holborn, London WC1. Tel: 071 211 5656.*

# Government to urge pay restraint

By Lisa Wood, Labour Staff

THE BRITISH government will be pushing for wage restraint in public sector annual pay rounds, Mr Michael Howard, Employment Secretary, indicated yesterday.

Mr Howard, speaking on BBC Television's On the Record programme about how entry into the Exchange Rate Mechanism (ERM) would affect pay negotiations, would not put a figure on the pay increases government would be urging on employers.

He said such a move would fall into the mistake of there being a "going rate". Each negotiation, he said, had to comply with the individual circumstances of each firm or industry.

However, he did not contradict a suggestion that government had highlighted in its evidence to pay review bodies in the public sector, that the underlying rate of inflation was 7 per cent.

Mr Howard said: "I am not going to anticipate wage negotiations that will take place in the public sector, but it has to be clearly understood that there are cash limited budgets".

The minister renewed his call to employees in the private sector to take account of lower inflation next year.

# Thatcherite revolution 'fails on shop floor'

By John Gapper

THERE is no reliable evidence that employees are working harder than before the government came to power in 1979 amid the widespread view that British workers were lazy and overprotected by unions, according to a study.

The study concludes that suggested links between the rise in manufacturing productivity in the mid-1980s and increased effort on the part of workers, are flimsy. It says employees are working more effectively with the same degree of effort.

"We cannot conclude that increased worker effort is a significant component explaining the increases in productivity. It would appear that on the shop floor, this element of the Thatcherite revolution has failed", it says.

The study says conventional measures of worker effort based on plant throughput may have become increasingly unreliable during the 1980s because of changes in operatives' jobs giving them more responsibility for work quality.

It suggests a leap in measured work effort in factories between 1982 and 1983 may have been caused by the shake out of older and less competent workers in the aftermath of the 1979-82 recession, leaving behind those who already worked harder.

Mr David Guest, the author, criticises as unreliable an index of effort based on work measurement at 171 factories employing 131,500 operatives. This Percentage Utilisation of Labour (PUL) index was started in 1971.

The view that workers worked harder in the past decade is based on a rise in the level of the PUL index from an average of 97 in the 1970s, to an average of above 103 in the 1980s. The 1988 score was estimated at 105.

Mr Guest says changes in industrial relations practices, reflected in quality-improvement programmes, increased flexibility and new management of recruitment and retention may have affected the index.

He argues that subjective measures of how hard workers believe they are working, are more reliable because increased throughput on plant lines may be achieved with less effort if workers are given more control of production.

■ *Have British Workers Been Working Harder in Thatcher's Britain? A Reconsideration of the Concept of Effort; by David Guest; British Journal of Industrial Relations November 1990 (forthcoming); Basil Blackwell Limited, 108 Cowley Road, Oxford OX4 1JF; by subscription.*

# Unions welcome guidelines on RSI

By Diane Summers, Labour Staff

*Office: a workplace designed for the person or the job?*

EMPLOYERS will, in future, have to carry out checks on the design of furniture, tools and work systems across a range of industries if they are to avoid liability for employees' hand, arm, and shoulder compliants.

Long-delayed guidance from the Health and Safety Executive (HSE) on a group of conditions commonly called Repetitive Strain Injury (RSI) is due to be published on Thursday.

The report has been in preparation for three years and delays in its publication have angered trade unions.

Ms Eve Horwood, health and safety adviser to the print union, Sogat, and a member of the report's editorial panel, claimed the guidance "had been put on the back burner, and it had suited a lot of people to leave it there".

She wrote a strong letter to the HSE in the summer alleging that the delay in publishing was "benefitting no-one with the possible exception of the insurance companies".

While the document will have no legal status, employers who ignore its recommendations could find themselves in a weak position in court if they have to face union-backed compensation claims.

The main emphasis of the guidance will be on designing tools, equipment and the working environment so that the job fits the person, rather than the other way round.

Ergonomics experts are expecting a rush of inquiries from both employers and unions following the report's publication.

RSI, or work-related upper limb disorder, as the HSE prefers to call it, covers a group of disorders affecting the hand, arm and shoulder. It includes tennis elbow and conditions such as tenosynovitis and carpal tunnel syndrome.

The largest groups of workers affected are those doing manual jobs, particularly those which involve a large element of repetition forcing bad posture or awkward movements.

One of the reasons for the delay in publication of the guidance has been the difficulty in reconciling the views of members of the editorial panel consulted during the drafting of the report.

The panel represented employer, trade union and medical interests.

Controversy centred on wording about the extent to which occupation could be blamed for upper limb disorder.

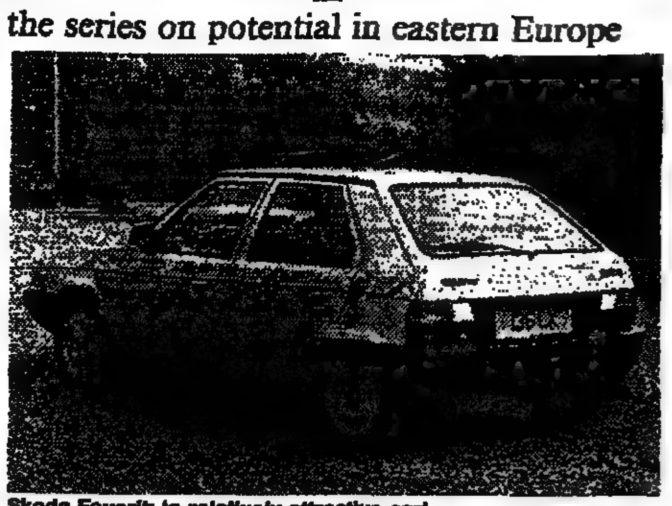
The report will reflect the mainly industrial nature of the complaint, although the HSE will say that the guidance should apply as much to the typing pool as to the factory floor.

The final version will make no specific reference to visual display unit work – an omission that could leave its authors open to accusations of having side-stepped a particularly controversial aspect of RSI.

The future for Skoda

# Charged with getting into better shape

**John Lloyd** continues *the series on potential in eastern Europe*



Skoda Favorit: 'a relatively attractive car'

Skoda used prisoners to work in its paint and press shops before the November revolution. Zdenek Vlasek, my guide, *shouted over the din of the* presses that this was a large reason why it had not been modernised sooner. "Now the new unions insist that conditions are improved."

His point is easy to acknowledge. There are some Czechoslovaks there, but many of the people sitting or standing by the old Erfurt (East German) hand-fed presses are Vietnamese; young, grim-looking, and wary, they insert the metal sheets and take them out every few seconds, as the presses hammer down.

The 2,000 Vietnamese and Cuban guestworkers, living – isolated and disliked – in squalid dormitories or apartments nearby, will go home over the next three years in anticipation of the slimming-down process to come.

The liberation of the prisoners, *one of President Vaclav* Havel's first decrees, is forcing Skoda to put in modern presses; by doing so, it is in better shape to talk to Western car companies about co-operation.

At the moment that co-operation looks likely to be with either Germany's Volkswagen or a recently-formed alliance between Renault of France and Sweden's Volvo. Both are competing to acquire a substantial holding in Skoda and a final decision will be made by Skoda and the Czechoslovak government by mid-November.

Meanwhile, Skoda finds itself liberated – though there is a certain apprehension about the place. It has been told to be a "capitalist company" – which means that, from September, it became a shareholding enterprise, with all shares initially held by the state. Later, some will be sold to the public.

In the interim period, it remains in a kind of sub-socialist *limbo – the state still takes* all but 700 crowns of the difference between the manufacturing price (50,000 crowns - about £1,200) and the domestic selling *price (85,000 crowns), and then* gives investment capital back to the company.

It also takes almost all the $100m hard currency it earns from the export of one third of its annual output of nearly 200,000 units.

In order to sweeten its sale to a foreign customer its loans are to be wiped off its books. Renault, which divulged its plans last week, wants a 40 per cent stake, and has put forward an investment plan for the joint venture in the 1990s involving some FFr 13bn (£1.3bn).

Renault and VW have both offered to modernise the big, part-neglected site in the company's town of Mlada Boleslav, 60 kms north east of Prague. Both have adopted an ambitious approach which appears to chime with what Skoda executives believe they need.

Why should this car company be attracting so much more interest than others in east central Europe?

In spite of the jokes and in spite of the debasement of its quality since the war, Skoda has retained a certain efficiency in production, a design capacity and a production culture which meant that its cars were generally a little better *than the other East European* low-end-of-the-market jobs – rather more reliable and solid.

In the past two years, it has shown it had the capacity to *design and produce – on a* modern line using over 100 West German Kuka robots – a hatchback called the Favorit, a relatively attractive car, comfortable to drive and be driven in, rather like many other west European hatchbacks but much cheaper, even after the slave labour has gone.

By the end of the year, an estate car version called the Forma should be ready. Only Skoda has retained the skills and will to do this – though it was not easy. Zdenek Novotny, head of the Projekta design company which planned the new robotised line, says: "Under the conditions here then, it was a wonder, a miracle that the new design was achieved and that it worked."

The Polish Fiats and Polonez, the Romanian Dacias, the east German Wartburgs and awful Trabants, are still being banged out – obsolete production technology making obsolete cars – although output of Trabants and Wartburgs is falling fast as customers start to buy western cars, used or new.

In the Soviet Union the Lada Sputnik hatchback – sold as the Samara in western markets, now more than a third of Lada production and growing – provides competition to the *massed ranks of the conven*tional three-box Ladas and the comfortable, floppy, unreliable old Volgas.

Skoda's Favorit may, as motoring writers have written *ad nauseam*, be no Skoda joke. But the engine which powers the Favorit is a modified version of a 25-year-old unit; the presses are aged, the paintshop dates from the early 1960s, the (Russian) steel is often defective, the mainly Czechoslovak components are often *inferior quality* and the plant's delivery system a long way from just-in-time.

The UK accounting firm Price Waterhouse, retained by Skoda since February to advise on foreign partnerships, says that its client wants to retain not just the famous name but also the engineering skills and capacity – but emphasises, too, that a foreign partner must bring technology, large *investment, managerial* and marketing skills – which are largely absent, even in this most internationally-minded of companies. "The main difference with a western company is that you must look as much at the non-money part of the package the western company brings as the money itself," says Richard Gledhill, the PW partner in charge of the operation.

There is also uncertainty over the legal framework. The new federal government is committed to a free market, but there has been and continues to be a prolonged debate about speed and depth; laws on taxation and privatisation will not appear until the latter part of the year. Says Gledhill: "Skoda is not just the flagship company; it will also to some extent set the rules."

The Czechoslovak industrial culture is a proud one. Most industrialists do not want to lose control of their companies to foreign buyers; they are looking for co-operation rather than buy-outs.

Skoda's management has shared that view, but now realises that investment is needed further down the line. The trick will be how to retain a Czechoslovak input which is *more than the winged arrow* badge; that, as Skoda's managers readily assent, will require a lot of hard work.

# Insurance careers alter

**By Richard Lapper**

BY THE year 2000 the chief executives of European insurance companies are likely to have radically different employment histories from their counterparts today. This is the conclusion of a study sponsored by Arthur Andersen and Andersen Consulting, "Insurance in a Changing Europe"*, based on the opinions of 420 insurance executives in 15 countries.

Whereas four out of five of today's insurance leaders have worked for the same company all their lives, in future many more are likely to come from another insurer or from outside the industry altogether, says the study. The insurance executive of the future will have accounting and information technology experience and be multi-lingual; respondents thought it "fairly likely" that chief executives would be fluent in French, German and English.

Above all, industry leaders will need greater management skills in order to handle the structural changes which are likely to affect the industry in the 1990s as European market barriers gradually disappear, cross-border trade becomes more common and competition among European insurers intensifies.

Survey respondents believed that the biggest challenge for leaders of the life and pensions industry will be to find ways of improving control of distribution channels. Future industry leaders will have relatively less expertise in insurance techniques.

Unless they specialise in niche areas, companies will need to provide superior service and build more into their products, control distribution channels, control costs through improved productivity, use technology more effectively and minimise exposure to acquisition. They will also be under pressure to exploit affordable opportunities in foreign markets.

If the study's conclusions are right, some of the biggest changes could be in the UK. Most British insurers have been run by managers who have worked with the same company all their lives, often progressing up the career ladder according to "Buggin's turn".

* *Published by Economist Publications on November 13.*

Business/education links

# Preaching to the unconverted

**Norma Cohen** explains the aims of a newly-formed foundation

When captains of industry gather to discuss whether there is any value in industry getting involved in education, it is generally a case of preaching to the converted. The same old faces are usually there, admits Sir Iain Vallance, chairman of British Telecom and chairman of the newly-formed Foundation for Education Business Partnerships.

Indeed, the board of FEBP is composed of representatives from companies known for *educational giving*: British Gas, Marks and Spencer, WH Smith and the Wellcome Foundation are among the 19 members. The foundation's aim is to encourage more companies to establish some form of partnership with the educational world and to create links with all schools, *from primary level* upwards.

The problem facing Sir Iain and his organisation is how to persuade the bulk of British businesses not currently involved in educational projects that it is in their interest to be so. And while British Telecom is prepared to make a substantial investment in state *education in Britain – it* donated £1.7m this year in cash and an equivalent amount in payments-in-kind – Sir Iain concedes that many of his counterparts fail to see the merits of such an investment.

From British Telecom's point of view, educational involvement has several long-term goals, the most crucial of which has to do with shaping attitudes towards business. Sir Iain says he fears that the education establishment has an anti-business bias that is communicated to students and becomes ingrained when they become adults. Clearly, involvement with schools is one way of counteracting that bias.

Similarly, Sir Jeremy Morse, chairman of Lloyds Bank and an FEBP board member, also expects benefits to accrue from the bank's educational involvement. For one thing, the bank is able to obtain a more highly-skilled group of trainees, particularly through work experience projects offered to GCSE students. Second, involvement at local level reinforces Lloyds Bank's image as a community organisation and customer loyalty.

However, both men say they are also passionately interested in education for personal reasons, and that their commitment goes beyond promoting their own businesses.

But like-minded business people are not sufficiently thick on the ground, concedes Suzanne Reeve, director of FEBP, which has total funding of £420,000. In general, schools and colleges have been more willing to embrace industry's objectives than industry has *those of the education establishment*, she says.

Schools themselves may be to blame. "They tend to go to business, rattling a bowl and looking for money." Indeed, she says, businesses are frequently put off because of the plethora of schools seeking support and the absence of any coherent plan to direct giving to areas where they think it is needed most.

Furthermore, because business may be pursuing its own goals in giving to education, contributions are frequently made to areas where help is needed least.

## Opposing points of view

Some business organisations have chosen to direct their educational giving into areas that most blatantly reflect their own business interests. For instance, the London Regeneration Consortium, controlled by a group of companies overseeing the King's Cross Redevelopment project in central London, has put together a King's Cross Resource Pack for schools.

The pack, targeted at GCSE-level geography students, examines the issues surrounding the development and takes into account opposing points of view. However, while the material may not be intended to sway public opinion, it is clear that the donors have targeted their resources in a manner designed to promote their interests.

Similarly, the Pulp and Paper Information Centre has produced an information pack on forestry, designed to dispel what it says are popular misconceptions among teachers that the paper industry is responsible for deforestation.

Such materials can be beneficial in that they raise the profile of science studies. But they serve a dual purpose in that they promote the image of the industries concerned. Businesses may be much less willing to spend money on education when the benefits to donors are less clear.

When the FEBP commissioned a poll of 100 companies, it discovered that 22 per cent are fairly or very dissatisfied with the standard of potential *employee being produced by* local secondary schools. Another 13 per cent said they were neither satisfied nor dissatisfied.

Meanwhile, businessmen such as Sir Iain believe that the educational establishment remains suspicious of industry's best intentions.

But teachers dispute that; they say that those notions are rapidly being dispelled. Kevin Mahon, head of the upper age division of Bishop Ramsey School in Ruislip, in the London Borough of Hillingdon, says that his school is more eager for better links than are some big local employers. "There are some individuals and some departments in some schools who still feel that way, but teachers generally realise that links with industry are beneficial," says Mahon.

While Bishop Ramsey has been successful in finding work experience for its entire 180-pupil fourth form, and establishing a business-sponsored enterprise award for students, it has failed to find work experience for its 60 teachers. Mahon says that five local multinational corporations have recently rebuffed efforts on that score, and he is looking to the FEBP for help.

Such links are exactly what FEBP has been formed to promote. Its goals have been whole-heartedly embraced by both the government and the Confederation of British Industry. It inherited the education/industry portfolio from Business in the Community, the social services-oriented task force set up by Prince Charles which, among other things, established the nation's first so-called Compact scheme between a business school and a school in East London.



LEGAL COLUMN

# Time to unravel the myths of information technology

**By Richard Susskind**

WHY DO many solicitors in this country wrap their use of information technology (IT) in a veil of secrecy? Cynical commentators on the world of computers and law argue, (or perhaps hope), that this secrecy is no more than a ploy to conceal either an embarrassing lack of success with technology or, indeed, a complete absence of computers.

But this rather uncharitable explanation will not do. Some law firms in the UK have invested heavily in IT and yet remain reluctant, unlike US attorneys, to discuss their uses of information technology beyond the confines of their practices. Why should this be?

The arguments marshalled in defence of this covert use of IT invariably have one unifying theme; namely that any public knowledge of a law firm's usage of computers will inevitably result in some loss of competitive advantage.

This belief can be challenged on two counts: it is a view frequently rooted in muddled thinking; and it is a conviction that could cause difficulties for the legal profession, both domestically and internationally.

Not only is there doubt over what this overworked concept of competitive advantage is all about, there is also some considerable ambivalence over whether it can be realised by anyone at all through the use of IT.

In the legal profession however, it does seem that most senior managers believe they can gain some competitive advantage *from* the use of IT. Management theory speaks of two basic strategies for achieving and sustaining competitive advantage: maintaining lower costs over rivals; or differentiating oneself from competitors.

The first strategy is not common among the larger users of IT in the legal field.

Those law firms that have invested heavily in IT are not renowned for cut-price services. It could be said that their use of IT is intended to enhance the quality of service to their clients.

The second strategy, differentiation, can surely succeed only if all points are made unambiguously clear to clients and potential clients alike. But how can this happen if lawyers are too secretive?

Beyond failing to promote and exploit sources of differentiation, there is a further weakness in the view that public knowledge prejudices competitive advantage. The weakness is to think that it is but a short step from learning about a useful application of IT to implementing it.

In fact, it is a vast chasm. To translate an idea for an application into an operational system requires initial assessment of technical feasibility; commercial viability and organisational suitability; approval of the project by the partnership or some IT committee; followed by design, development, training and implementation.

**If lawyers' use of IT is to be successful, it will need to be fairly widespread**

While management tends to complain about the time consumed by software development, by the time competitors catch up on innovators, they will be too late to regain any advantage.

The lesson in all of this is to remain circumspect about applications under development, but to talk more freely about working systems (remembering too that excessive secrecy can inhibit appreciation of what others are doing).

The second general concern about secret usage of IT is that until there is a significant number of advanced and non-secretive lawyers using IT, the UK legal profession will fail, domestically, to achieve many potential benefits; and worse, it may prejudice its competitiveness internationally.

On the domestic front, if lawyers' use of IT is to be successful, it will need to be fairly widespread. Progress will depend on most lawyers using similar or compatible systems.

For example, if lawyers use litigation support databases in discovery or in listing documents or if they use computers to draft contracts, then these activities can be greatly enhanced if the other side also makes use of IT. Photocopying, retyping, faxing and other time-consuming and costly tasks can be avoided.

Moreover, clients will benefit by receiving a quicker and higher quality of service which is also better value for money and they will soon expect such use of IT from their legal advisers.

This expectation will, more than any other factor, accelerate lawyers' uptake of IT.

The quality of supply and suppliers of IT products and services will also improve the more lawyers embrace the technology.

There is, in short, a minimal level of IT use below which it is in no lawyer's interests for his colleagues in the UK to fall. For technology to succeed throughout the legal profession in this country, today's advanced users should share their experience with the less knowledgeable so as to achieve the mass of advanced users necessary for full exploitation of IT in the future.

If the UK law firms most effectively using IT are not seen from abroad to be promoting and discussing their usage, then the profession in the UK could be regarded as neither equipped nor sufficiently forward-looking to manage the challenges of the international business world.

For example, in relation to the resolution of international disputes ("forum shopping"), unless the UK is seen to have a legal profession that uses IT in support of litigation (in case preparation and the courts), then the UK may well not be looked on as a cost-effective forum for litigation and arbitration. For example, in the US, litigators who do not use IT are often regarded as unsuitable advisers on important disputes.

The latest research on management and international competition suggests that the most outstanding commercial organisations in the international arena are those which are based in highly competitive domestic markets with demanding customers and formidable competitors.

It is reasonable to suppose that the best law firms internationally will have similar domestic profiles. In that event, law firms seeking to be the best in the world market should want to have very strong local competitors.

Outstanding firms that use IT heavily, and regard it as central to their success, will surely then be serving their own best interests by urging their competitors to use technology; for IT will strengthen these competitors, reinforce the domestic market and thereby encourage the best firms to flourish internationally.

There are, therefore, significant dangers in lawyers remaining too secretive about their use of IT.

This does not mean that firms should be explicit in all details about their applications of technology but it will benefit both the profession and individual practices if leading users help encourage the use of technology within the UK and promote internationally the profession's success with information technology.

*The writer is adviser on law and information technology to City solicitors Masons. He is chairman of the Society for Computers and Law and a visiting professor at Strathclyde University.*

# THE WEEK AHEAD

ECONOMICS

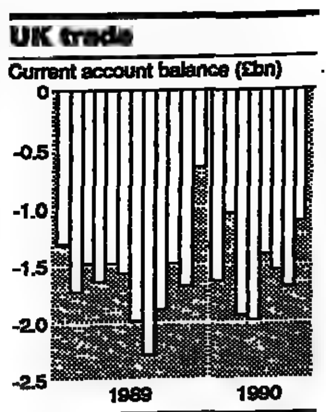
## Focus moves to US budget-making

AN inevitably painful US budget-making process should be the focus of the financial markets this week as soon as today's UK trade figures are out of the way.

Today, the Treasury Budget for September is released and is expected to show a surplus of $15bn to complete the 1989-90 fiscal year, leading to a deficit probably totalling around $230bn. The dollar has weakened markedly on the foreign exchanges as the investors' disillusionment with the administration's ability to solve the Budget conundrum mounts.

Bad as this sounds, it is the budget for the fiscal year which began in October, that is causing the US crisis of governance. The deficit for this year is widely forecast to be as high as $300bn unless the Bush administration manages to make some sharp spending cuts. If the economy goes into recession, tax revenues will drop and the deficit could be as high as $350bn.

Indicators of sluggish growth have also depressed the dollar, as they have raised the prospect of further interest rate cuts. September durable goods orders on Wednesday and money supply figures for the week ended October 15 on Thursday should provide some clues about the extent of the slowdown.




In the UK, the impact of an economic slowdown both at home and overseas will show up in today's trade figures for September. Slack demand is keeping import penetration down, but is also making export growth more difficult as demand is also weakening abroad. Membership of the exchange rate mechanism (ERM) is likely to impair the UK's future trade performance, as an export-led slowdown in growth is an important part of the anti-inflationary ERM-discipline.

Overall, however, the predicted £1.3bn deficit for September should show the slow improvement in the balance of trade continuing, although the final deficit for the year is predicted to be around £4bn-£5bn above the Treasury's forecast of £15bn.

Money supply figures due out in Germany this week are not expected to reveal much about the inflationary consequences of unification. Information about monetary growth in eastern Germany has not been made available by the Bundesbank.

Other events and statistics, with median market forecasts by MMS International, the finance research company, include:

**Today:** US, Federal Chairman Alan Greenspan addresses the American Bankers Association, Treasury Budget for September. Canada, retail sales for August (down 0.7 per cent). Australia, August housing finance (flat). UK, September current account (minus £1.3bn) and trade balance (minus £1.3bn). Japan, early October wholesale price index.

**Tomorrow:** Japan, Bank of Japan branch managers meeting. UK, September building society new commitments (£3.5bn); debate on the exchange rate mechanism in the House of Commons. France, trade balance for September. Germany, bond issue by the Bundespost.

**Wednesday:** US, September durable goods orders (down 0.2 per cent), durable shipments; auto sales for October 11-20. Denmark, consumer price index.

**Thursday:** US, existing home sales for September, mid October money supply data, initial claims for week ended October 13. Japan, governor of Bank of Japan gives press conference.

**Friday:** US, September export and import price indices, September bank credit. Japan, September consumer price index, October Tokyo CPI (up annual 3 per cent), September retail sales (up 7.9 per cent, year-on-year), September industrial production (down 1.1 per cent seasonally adjusted).

**Saturday:** New Zealand general election.

**During the week:** Germany, September import prices (up 1.5 per cent on August, down annual 1.7 per cent), M3 money supply (up 4.5 per cent from base, 0.7 per cent on month), October preliminary cost of living (up annual 3.1 per cent, monthly 0.4 per cent). The Netherlands, July trade balance. Italy, preliminary retail prices index for October.

**Rachel Johnson**

UK COMPANIES

LUCAS INDUSTRIES, the automotive, aerospace and industrial group, will report full year figures for the year to end-July on Monday. Forecasts centre around £195m pre-tax against £187.1m, suggesting almost unchanged second half profits after an 11 per cent rise to £80.1m at the midway point. Lucas is particularly sensitive to exchange rates with high exports, overseas operations and the aerospace industry's habit of pricing in dollars.

Shares in Smith Industries have declined steeply this year as the market has worried about the impact of cuts in defence spending on the UK-based aerospace, medical systems and industrial group.

Analysts are expecting annual profits of about £115m when the group reports on Wednesday, only marginally ahead of last year's £111.7m.

The stock market shook when Imperial Chemical Industries announced worse than expected interim results in July. Figures for the third quarter, due on Thursday will paint no more cheerful a picture and analysts' expectations are in the range £170m to £180m pre-tax against £396m last time.

The higher figure would give a nine-month total of £913m, against £1.23bn last time. Features will be weak demand for chemicals and plastics, rising raw materials costs, and the strength of sterling which is likely to have been eroding ICI's competitiveness.

Wolseley, the world's largest plumbing and heating merchant, is finally feeling the effect of the slowdown in the UK housing market despite being one of the strongest and most tightly managed companies in the sector.

Pre-tax profits for the year to end-July, due out on Tuesday, are likely to show an 8.8 per cent fall to £115m giving earnings per share of 34.8p, down from 36.9p. Analysts expect the total dividend to increase by 1p to 12p. Results for the current financial year are likely to be adversely affected by the impact of the downturn in the US, which accounts for nearly 40 per cent of group turnover.

UK COMPANIES

**TODAY**
COMPANY MEETINGS:
GT Japan Inv. Trust, 8 Devonshire Square, E.C., 12.30
Murray Income Trust, 7 West Nile St., Glasgow, 10.30
Richmond Oil & Gas, 135 Bishopsgate E.C., 12.00
BOARD MEETINGS
Finals:
Allied London Props.
Lucas Inds.
Prestwick Hldgs.
Scottish Metropolitan Prop.
Interims:
Darby
Hammerson Property
TDS Circuits

**TOMORROW**
COMPANY MEETINGS:
BM Group, BM House, Avonridge, Cippenham, Wilts., 10.00
Osprey Communications, 10 Little Portland St., W., 10.00
Precious Metals Trust, 15 St. James, S.W., 3.00
Primadona, 197 Knightsbridge, S.W., 12.00
BOARD MEETINGS
Finals:
British Assets Trust
Investors Capital Trust
McKechnie
Pressac
Shandwick
Wolseley
Interims:
Boxmore Intl.
Denistron Intl.
FR
First Charlotte Assets Trust
Le Creuset S.A.
Plastiseal
Value & Income Trust

**WEDNESDAY OCTOBER 24**
COMPANY MEETINGS:
CALA, 80 High St., The Royal Mile, Edinburgh, 10.00
Davies (D.Y.), 30-32 St. Mary Axe, E.C., 11.00
Goodhead, Chaucer Intl. Estate, Launton Rd., Bicester, Oxon, 12.00
Triton Europe, Stationers' Hall, Ave Maria Lane, E.C., 11.30
BOARD MEETINGS
Finals:
Overseas Inv. Trust
Interims:
Bimec Inds.
Brown (N.)
Smiths Inds.
Sunleigh

**THURSDAY OCTOBER 25**
COMPANY MEETINGS:
Allied Leisure, 142/144 Streatham Hill, Streatham, S.W., 11.00
Gabicci, Gabicci House, Humber Rd., N.W., 4.00
Haynes Publishing, Haynes Sparkford Motor Museum, Sparkford, Yeovil, Somerset, 1.00
London Merchant Securities, 33 Robert Adam St., W., 12.00
Sirdar, Cedar Court Hotel, Wakefield, 12.00
Willaire, 30 Threadneedle St., E.C., 12.00
BOARD MEETINGS
Finals:
Benson Group
Govett Strategic Inv. Trust
Majedie Invs.
New Frontiers Dev. Trust
Pegasus
Ramar Textiles
UDO Hldgs.
Interims:
Airflow Streamlines
Elliot (B.)
Ferguson Intl. Hldgs.
Fleming Univ.Inv. Trust
Securities Trust of Scotland

**FRIDAY OCTOBER 26**
COMPANY MEETINGS:
Optical & Medical, 1-11 Hay Hill, Berkeley Square, W., 12.00
Westminster & Country Props., Apollo House, 56 New Bond St., W., 12.00
BOARD MEETINGS
Interims:
Aberfoyle Hldgs.
CPU Computers
Clayton, Son
Conrad Continental
Delyn Packaging
New Throgmorton Trust
RIT Capital Partners
Usborne

*Company meetings are annual general meetings unless otherwise stated.*

DIVIDEND & INTEREST PAYMENTS

**TODAY**
ATA Selection 1p
Black (Peter) 2.07p
Brandon Hire 2.22p
Church 3p
English & Scot. Investors 1p
Forwell 0.375p
Life Sciences Intl. 1p
Scot. Eastern Inv. Tst. 0.43p
Wilson (Connolly) 1.21p

**TOMORROW**
Bank of China Fltg. Rate Nts. 1992 $447.97
Camellia Invs. 10p
Die Erste Osterreich Spar-Casse Sub. Fltg. Rate Nts. 1992 $457.60
El du Pont de Nemours 9% Nts. 1992 4.5pc.
Mezzanine Capital 22.6cts.
National Westminster Finance BV Gtd. Fltg. Rate Cap. Nts. 2005 $447.97
Osprey Communications 3p
Sheldon Jones 3.77p
Woolwich Bldg. Society Fltg. Rate Nts. 1995 £189.83

**WEDNESDAY OCTOBER 24**
Adscene 3p
Bristol & West Bldg. Society Fltg. Rate Nts. 1992 £190.62
Britannia Bldg. Society Fltg. Rate Nts. 1996 £380.60
Candover Invs. 3p
Co-operative Bank Sub. Fltg. Rate Nts. 2000 £190.62
Daniels (S.) 1.25p
Lloyds Bank Sers. "A" Var. Rate Sub. Nts. 1998 £381.26
MTM 1.7p
Precious Metals Tst. 2p
Thames Television 5.15p
Tops Estates 1.6p
Tweefontein Utd Collieries 30cts.

**THURSDAY OCTOBER 25**
Bankers Tst. New York 50.25cts.
CPC Intl. 50cts.
Conversion 9½% Stk. 2004 4.75pc.
English & Caledonian Inv. 2p
Gartmore Value Invs. 0.8p
General Electric 47cts.
Hartons 0.1p
Home Counties News. 2.75p
Lambert Howarth 3.6p
Manchester (City of) 11½% Red. Stk. 2007 5.75pc.
Manufacturers Hanover 82cts.
More O'Ferrall 3.2p
Needler Group 3.23cts.
Orix Ireland Finance 7% Gtd. Nts. 1995 3.5pc.
Pelon 1p
Tibbett & Britten 2.9p
Treasury 10% Cnv. Stk. 1990 5pc.

**FRIDAY OCTOBER 26**
Abbott Mead Vickers 2.7p
Aspen Communications 2.7p
Beatrix Mines 48cts.
Breedon 1.75p
British Mohair 1.4p
Brixton Estate 2.55p
Canadian Imperial Bank 33cts.
Cargo Control 0.5p
Close Bros. 5.4p
Cooper Clarke 3p
Davies (D.Y.) 3.9p
Epwin 2.1p
Holt (Joseph) 8p
Intl. Inv. Tst. Co. of Jersey 8p
Intrum Justitia NV 0.8p
Italy (Republic of) 8½% Nts. 1994 4.25pc.
Jacobs (John I.) 1.8p
Kleinwort Benson 5.3p
Matthews (Bernard) 2p
McLaughlin & Harvey 3.25p
Metalrax 1p
News Intl. 9% Gtd. Bds. 1990 4.5pc.
Pickwick 1.65p
RPS 1.4p
Second Alliance Tst. 22p
Do. 4½% Cum. Prf. 1.575p
Sedgwick 4p
Sunset & Vine 2p
Trinity Intl. 2.6p
Usher (Frank) 4p
Wyevale Gdn. Centres 2.25p

PARLIAMENTARY DIARY

**TODAY**
**Commons:** Lords amendments to the Employment Bill and the Landlord and Tenant (Licensed Premises) Bill. Debate on plans for a European company statute. Opposed private business from 7 pm.
**Lords:** Broadcasting Bill, Third Reading.

**TOMORROW**
**Commons:** Debate on the Exchange Rate Mechanism. Motion on the British Nationality (Hong Kong) (Selection Scheme) Order, 1990.
**Lords:** Environmental Protection Bill, Third Reading.

**WEDNESDAY**
**Commons:** Motions relating to European Community legislation. Debate on EC document on the extension of European aid to central and eastern Europe. Opposed private business from 7 pm.
**Lords:** Courts and Legal Services Bill, consideration of Commons amendments.
**Select Committees:**
Environment – subject, indoor pollution. Witness: Chartered Institute of Building Services Engineers. (Room 21, 10.30 am.)
Foreign Affairs – subject, Gulf crisis. Witness: Association for Free Kuwait. (Room 6, 10.30 am.)
Welsh Affairs – subject, expenditure plans for Wales. Witness: Welsh Secretary. (Room 8, 10.30 am.)
Energy – subject, energy efficiency. Witnesses: Consumers' Association; Energy Management Services Technology and Resources. (Room 18, 11 am.)
Trade and Industry – subject, British Shipbuilders; NESL. Witnesses: Christopher Campbell, chairman, British Shipbuilders; Douglas Hogg, MP, Minister for Industry. (Room 15, 11.15 am.)
Education – subject, prison education. Witness: Prison Officers' Association. (Room 18, 4 pm.)
Foreign Affairs – subject, Gulf crisis. Witness: Douglas Hurd MP, Foreign Secretary. (Room 6, 4 pm.)
Home Affairs - subject, annual report of the Data Protection Register. Witness: Eric Howe, Data. (Room 15, 4.15 pm.)
Transport – subject, urban public transport: the light rail option. Witnesses: British Rail and London Transport. (Room 8, 4.15 pm.)
Treasury and Civil Service – subject, official economic statistics. Witness: Sir Jack Hibbert, director of the Central Statistical Office. (Room 17, 4.30 pm.)

**THURSDAY**
**Commons:** Lords amendments to the Broadcasting Bill.
**Lords:** Law reform (Miscellaneous Provisions) (Scotland) Bill, Commons amendments.

**FRIDAY**
**Commons:** Courts and Legal Services Bill, Lords amendments. Broadcasting Bill, consideration of remaining Lords amendments.

## TRADE FAIRS, EXHIBITIONS & CONFERENCES

### CONFERENCES

**29 OCTOBER 1990**
The Gulf Crisis: the legal issues. Jointly organised by Baker & McKenzie and the Royal Institute of International Affairs. Chatham House, 10 St James' Sq, London SW1. Enquiries: RIIA Conferences: Tel 071 930 2233; Fax 071 839 3593
LONDON

**29-30 OCTOBER 1990**
The Feasibility and Implementation of BARCODING
Mountbatten Hotel, Contact: Amanda Stuart, I B C Technical Services Ltd
Tel: 071 236 4080
Fax: 071 489 0849
LONDON

**NOVEMBER 1&2**
Pan European Mobile Radio
The international events on markets, regulation and standards, as the Commission prepares its Green Paper, and digital celluler and cordless come on stream. Speakers from EC, Standards Institute and Industry.
CommEd Tel (+44) 071 274 8725. Fax: 071 733 0266 LONDON

**NOVEMBER 2**
CONTINGENCY PLANNING - A 1990 UPDATE
A one day computer security seminar
Portman Inter Continental Hotel
Contact Amanda Stuart
IBC Technical Services Ltd
Tel: 071 236 4080
Fax: 071 489 0849
LONDON

**NOVEMBER 5**
City Regulation Reappraised
Hotel Intercontinental, London
Enquiries: Financial Times Conference Organisation.
Tel: 071-925 2323
Fax: 071-925 2125
LONDON

**NOVEMBER 12-13**
World Electricity
Hotel Intercontinental, London
Enquiries: Financial Times Conference Organisation.
Tel: 071-925 2323
Fax: 071-925 2125
LONDON

**NOVEMBER 20**
The UK Economy into the 1990's. The Henley Centre's Annual Conference examining economic prospects and their implications. The Cavendish Conference Centre, London W1 £275+VAT
Contact: Jacqui Gotts, The Henley Centre
Tel: 071-353 9961. LONDON

**NOVEMBER 22**
North Sea Diving Support Vessel (DSV) Conference
Institute of Petroleum, London W1.
Contact: Caroline little, Institute of Petroleum.
071-636 1004
LONDON

**NOVEMBER 19-22**
GOLF INTERNATIONAL 2000
Exhibitions, Seminar & Workshops
For all concerned with developing golf courses in UK and Europe. November 19, Royal Garden Hotel, London. Exhibition, Workshops - Nov 20-22, Sandown Park, Esher Surrey. Tel: 081 681 1242
Fax: 081 681 0012
ESHER/LONDON

**NOVEMBER 21-23**
Effective Customer Account Management.
Look after existing business by learning how to manage major accounts.
Norfolk Hotel, London
Contact. Hugh Osborne
Infomatics Resource Centre
Tel: 081-871 2546
Fax: 081-871 3866
LONDON

**NOVEMBER 26-27**
Investing in North America in the 1990's. Featuring Sir Alan Walters and Professor Jim Rogers. The Grosvenor House, London.
Contact: Wendy Anderson, Capital Resourses International Group Inc., New York.
Tel: (USA) (212) 754-2115
Fax: (USA) (212) 754-0082
LONDON

**DECEMBER 3-4**
The Future of the Gulf: Risks and Opportunities.
Hyde Park Hotel, London SW1.
Contact: Kate Williamson, Conference Connections (UK) Ltd
Tel: 0767 600662.
LONDON

**DECEMBER 5**
International Pay Policies Conference.
Gloucester Hotel, SW7. Speakers from: CBI, TUC, NEDO, ILO, PW and LSE. £175+VAT.
Public Finance Foundation (071-895 8823 Ext. 239/255)
LONDON

**DECEMBER 6-7**
*Digital versus IBM - a two day conference.* New perspectives and independent guidance for senior managers. Kensington Park Hotel, London.
Contact: Lucinda Tosh, IBC Technical Services Ltd.
Tel: 071-236 4080.
LONDON

**DECEMBER 11**
Acquiring in Italy. Le Meridien Hotel, Piccadilly. London W1 A comprehensive guide to the Italian M&A scene. Sponsored by Financiere Indosuez. Coopers & Lybrand Europe and Manufacturers Hanover. Contact: FIBEX
Tel: 071-489 9944
Fax: 071-236 6140
LONDON

**DECEMBER 12-14**
The 7th European Satellite Communications Conference
Tutorial followed by two-day conference in co-operation with the Commission of the European Communities. Opening address: Lord Hesketh, DTI. Keynote presentation: Boris Chirkov, DG Intersputnik, USSR.
Contact: Beverley Ross, Blenheim Online
Tel: +44 (0)81 868 4466 LONDON

**JANUARY 24 1991**
Acquiring In Germany. Inn on the Park Hotel. Park lane, London W1
A comprehensive guide to the M&A scene in the unified Germany. Sponsored by Coopers & Lybrand Europe and The Lecham Partnership.
Contact: FIBEX
Tel: 071-489 9944
Fax: 071-236 6140 LONDON

**NOVEMBER 13-14**
International Conference on the Automotive Industry and the Environment.
Intercontinental Hotel.
Contact: Helen Coury, Environmental Matters Ltd
Tel: (44-712241876)
GENEVA

**NOVEMBER 12-16**
MIDEST (Subcontracting); PRONIC (Electronic Production); ELEC (Electrical Equipment).
For details of any of these exhibitions, contact Promosalons (UK) Ltd:
Tel: 071 221 3660.
Fax 071 792 3525
PARIS

**NOVEMBER 19-20**
Business with Spain
Strategies for Developing Competitiveness. Palace Hotel, Madrid, Enquiries: Financial Times Conference Organisation.
Tel: 071-925 2323
Fax: 071-925 2125
MADRID

**NOVEMBER 29-30**
"Building Bridges" 2 days on understanding Eastern European business opportunities. National Palace, Sofia. £450 incl. 3 nights accom.
Contact: Gati Al-Jebouri
0272 730 984
SOFIA, BULGARIA

**NOVEMBER 29-30**
The New European Financial Marketplace - A series of workshops on competition and regulation in banking, finance and securities markets, with papers presented by leading experts. Dinner speaker: Mr G Fitchew, Director General of the EC Commission.
Contact: Rose Deterville, CEPS, +32 2513 4088.
SAS HOTEL BRUSSELS.

### OVERSEAS

**NOVEMBER 8-9**
Telecomms Approvals for the Single Market. The latest on the Commission's and Standard Institute's and the commercial implications.
CommEd Tel: (+44) 071 274 8725. Fax: 071 733 0266 Attis: Tel (+33) 1 4960 9003. Fax: 4671 3634.
PARIS

**DECEMBER 5**
M & A Transactions in Germany - major tax and legal implications:
Parkhotel, Frankfurt.
Chairman - Dr Gerhard Wegan, Glaiss, Lutz, Hootz, Hirsch & Partners, Stuttgart. Contact: Amanda Wright, Legal Studies and Services Ltd.
Tel: 071-236 4080.
FRANKFURT

To advertise in this section please telephone Mark Hall-Smith 071-873 3580

## CONSTRUCTION CONTRACTS

### Hong Kong typhoon shelter

GAMMON CONSTRUCTION, the Hong Kong-based company owned jointly by Trafalgar House and Jardine Matheson, has been awarded contracts with a combined value of over £64m.

The largest, valued at £15.3m, is for phase 1 of the Yau Ma Tei replacement typhoon shelter forming part of the west Kowloon reclamation scheme, which is an important step towards the construction of the new airport.

The client is the Hong Kong government and the replacement typhoon shelter will cover an area of 70 hectares. The contract comprises the construction of 1,325 metres of breakwater, 252 metres of vertical sand wall and 25 marine dolphins as well as five hectares of reclaimed land. Work is expected to be completed in mid 1992.

The second largest project is for the North West Kowloon Sewerage Works and has been awarded in joint venture with Franki Kier. The £18m contract was also placed by the Hong Kong government.

Other contracts include civil engineering works valued at £10.5m. They include a road and drains project and phase 2 of a marine pier structure for Tsing Yi Mobile Oil.

Foundations work, including substructure, bored and driven piling, amounted to over £14.3m, while two fitting-out contracts and repairs to the Housing Authority Estate are worth nearly £6.5m.

### Building Crown Courts in London

PSA Projects, acting on behalf of the Lord Chancellor's Department, has awarded a £14.7m construction contract to KYLE STEWART to redevelop a former HMSO printing works at Pocock Street, the Borough, London, SE1, and provide nine new Crown Courts. Completion is scheduled for 1992.

The project is based on the develop and construct contract strategy which has been employed by PSA Projects on other court projects where earlier completion of the building is required.

Based on the Crown and County Court Design Guide, the 13,000 sq metre building will accommmodate nine courtrooms together with associated circulation and ancillary areas for judges, juries, defendants and the general public. A feature of the contract will be the extensive demolition of the existing structure and the construction of a second floor to accommodate a plant room.

### Refurbishing local authority housing

WIMPEY CONSTRUCTION SCOTLAND has been awarded the final two phases of Cunninghame District Council's £3.3m refurbishment scheme in Androssan.

The final two phases of the scheme involve the refurbishment of 88 local authority houses and the full modernisation of two blocks of flats.

Each of the 88 homes – contained in 26 two-storey blocks – will be painted and uPVC windows fitted.

Extensive landscaping will be carried out to provide gardens, footpaths, walls and fences. At the same time, two blocks of flats will be completely gutted and converted into 12 flatted dwellings, with the three-storey sections reduced to two storeys.



### Upgrading Liverpool prison

MOWLEM NORTH WEST, a division of Mowlem Regional Construction, has won contracts worth £16m.

The Merseyside office has secured orders valued at £8.5m. The largest, worth £3.2m, was placed by the Home Office for refurbishment work on G wing at Walton Prison, Liverpool.

A further contract has been awarded by the North West Water Authority for £1.5m at Sandon Dock, Liverpool.

Other contracts include a new lube oil blending plant for Shell Research and an extension to civic offices for Ellesmere Port and Neston Borough Council.

The Manchester office has secured orders worth £7.5m. The largest, worth £3.2m, was received from McDonalds Restaurants. Work is already under way on the construction of a two-storey drive-in restaurant, and work has also commenced on its new regional headquarters in Salford.

Other contract wins include a store for Iceland Frozen Foods in Stockport, the construction of a junior and infants school at Morecambe, a project for Manchester City Council and two contracts for the North West Regional Health Authority.

### Shirley housing project

TRENTHAM, the construction arm of Egerton Trust, has won a £3m contract to build a joint housing development for Abbey National Homes and Egerton Homes.

Infrastructure works have already begun on the site in Shirley, near Croydon, which requires extensive drainage before construction of the 55 family homes can begin.

The 86-week construction and landscaping contract is due for completion in the spring of 1992 and is Trentham's second major contract for sister housebuilding company Egerton Homes.

* * *

LAING NORTHERN, part of John Laing Construction, has been awarded a contract, worth more than £500,000, by the Robinson Group for a single-storey bottling factory in Penrith, Cumbria.

The factory will cover 1,500 sq metres, comprising a steel frame with concrete block cavity walling plus roads and paths leading from the building. Completion is scheduled for spring 1991.

* * *

Among a number of new awards received by the Merseyside-based TYSONS GROUP are: a control centre valued at £1.4m for Merseyrail at Sandhills has been awarded to Tysons Contractors by the London Midland region of British Rail. It will control the signalling system throughout Merseyside's operational area.

A £3.5m package for doorsets and glazed screens has been awarded to Tysons Joinery for the Westminster and Chelsea Hospital, Fulham Road.

* * *

English Estates has selected EDMUND NUTTALL as main contractor to remove about 350,000 cu metres of contaminated ground material which was left after the naval dockyard was handed back to Chatham.

Under a comprehensive monitoring and testing regime, including the use of an on-site laboratory, the material will be excavated, loaded into sealed containers and then transported by rail for disposal.

Nuttall will then replace the material with clean dredged fill brought directly to the site by river.

Alastair Muir

Graham Clark (left) as Mephistopheles and Alan Opie as Faust in Doctor Faust

# Doctor Faust

**COLISEUM**

Busoni's idea for an opera – for in his lifetime it never got past that stage – was sensationally realised for the English National Opera four-and-a-half years ago, by Antony Beaumont, David Pountney and Stefanos Lazaridis. Beaumont completed the unfinished score, largely according to Busoni's indications about which of his separately composed pieces might serve as the basis for this or that scene. The staging by Pountney and Lazaridis, brilliantly visual and specific, cut suggestively deeper than any "faithful" representation of Busoni's lofty, rambling plan could have done.

As an intrepid rescue-operation for the intended *magnum opus* of an erstwhile composer-sage who has become harder and harder to place, it was a serious ENO triumph. It still is; in the revival on Saturday the visual marvels still took one's breath away (it would be wrong to spoil the show for newcomers by describing too much), and the late-tonal strangeness of the music doesn't wane with further acquaintance.

Some tightening of the musical focus is needed yet. This time Antony Beaumont conducts all the performances; he knows his own score very well, of course, but occasionally one missed Mark Elder's attack and his purposeful forward urging. Nor does Alan Opie's Faust, sturdy and creditably acted, match the romantic nobility that Thomas Allen (with greater experience of Mahler and of *Lieder*) brought to the longest vocal lines. Graham Clark's scathing, gloating Mephistopheles is still superb – this is a memorably inspired creation – and Helen Field invests the Duchess of Parma with her own kind of passionate distinction.

Henry Newman repeats his grimly imposing Brother (of the luckless Gretchen, whose story Busoni left off-stage but Pountney has preferred to reinstate in fantasy), and Clive Bayley – multiply parted, like everyone else except the leading singers – is the excellent new Wagner. Their new colleagues are all effective; the satyr-play that Pountney has made out of Busoni's Cortege missed the final degree of lewd panache. But none of these small reservations about the first-night return matters much: *Doctor Faust* is still a fascinating, sometimes moving, frequently amazing experience – one of the highest achievements of the Pountney-Lazaridis team, and unlikely to be equalled.

**David Murray**

# Anne-Sophie Mutter

**BARBICAN HALL**

The roar of applause after the Sarasate said it all. There may be other violinists who can play scales as fast and harmonics as high as Anne-Sophie Mutter; but it is unlikely that any of them could take an empty vessel of display and pour into it as much music as she did here. A serious musician had just trounced the virtuosos at their own game.

This week-long series of concerts at the Barbican is giving us a fine opportunity to get a feel for the range of Anne-Sophie Mutter's musical sympathies. From Lutoslawski last week it moved on at the weekend to a solo recital, accompanied by Phillip Moll, and a standard Beethoven and Chaikovsky concert, the latter sold out months in advance. Both were being filmed by discreetly placed video cameras.

Throughout each of the events so far the impression has been of a performer wholly at ease with herself. You never have the feeling of a player being technically pushed or bringing off a performance in the heat of the moment; nor is there any of the risk-taking and excitement that might entail. No matter how difficult the music, Mutter is always calm and controlled, playing well within the limits of her ample capabilities.

At her concerto appearances in London we have become familiar with the warm lyricism of her playing. To that I would only add that in recital the shades of colouring are even more numerous and subtle. Like a human voice, Mutter's violin speaks to you in such a way that every phrase has something new to communicate: in her Beethoven sonata (Op.30 No.2) it was she who held the attention even when the pianist had the most important material.

In Friday's programme the main work was the Franck Sonata, richly varied, glowingly expressive. That afternoon I had played the live recording that David Oistrakh made with Richter and even that performance was rivalled. For while Moll's able account of the piano part could hardly bear comparison with the sublime Richter (what simplicity he distils from all those notes!) Mutter was the more imaginative by far in the violin part.

The concert on Saturday opened with Moret's *En Rêve*, a concerto in all but name, to which Mutter brought any number of wondrous effects, though the piece itself does not amount to very much more. It certainly did not stay long in the mind once she had launched into Chaikovsky's Violin Concerto: a rivetting performance, on the lines of her well-known recording with Karajan, but now racing ahead at a thrilling speed in the finale.

For that we must thank Colin Davis and the London Symphony Orchestra, who understood exactly when to accompany their soloist, when to take the lead. In Beethoven's Triple Concerto they were joined by the cellist Frans Helmerson and the pianist Andrey Gavrilov in what was, all round, a trenchant, strongly-propelled performance; but even here Anne-Sophie Mutter dominated. Musicianship at her level cannot help rising to the top.

**Richard Fairman**

ARCHITECTURE

# More than window dressing Liberty

It takes time for an architectural practice to develop a personality – and indeed some never do. Sometimes it is merely fashion that adds a layer of styling to competence and sometimes there is no underlying theory and so the personality is little more than make-up. There is also a danger that a successful practice will become the victim of its own marketing, pushing styling at the expense of clients wishes.

To make a critical assessment of a rising practice it is necessary to see a body of work that shows real development and progress. I have been watching the progress of Harper Mackay, which is now a medium-sized practice based in London. It was the recent opening of the Glasgow branch of Liberty that confirmed its standing as a practice with a distinctive personality. There is an interesting group of youngish firms now established in Britain which builds in a clear and elegant style that is well worth noting. The leading names are Stanton and Williams; Ken Armstrong; Eric Parry; David Chipperfield; and now Harper Mackay. The hall mark of their work is a kind of enriched modernism that calmly accepts that utilitarianism is not enough.

In England during the last decade there has been a huge growth in the quantity of private enterprise building coupled with an awareness, almost universally shared, that modernism has been tragically implemented in the decay of traditional skills and the loss of quality in the built environment. Young modern architects have noticed this and their work shows a concern for restrained colour, texture and form that was beginning to be annihilated from architecture altogether. The development of this calm, cool, elegant school alongside the tours de force of British high-tech makes it additionally fascinating.

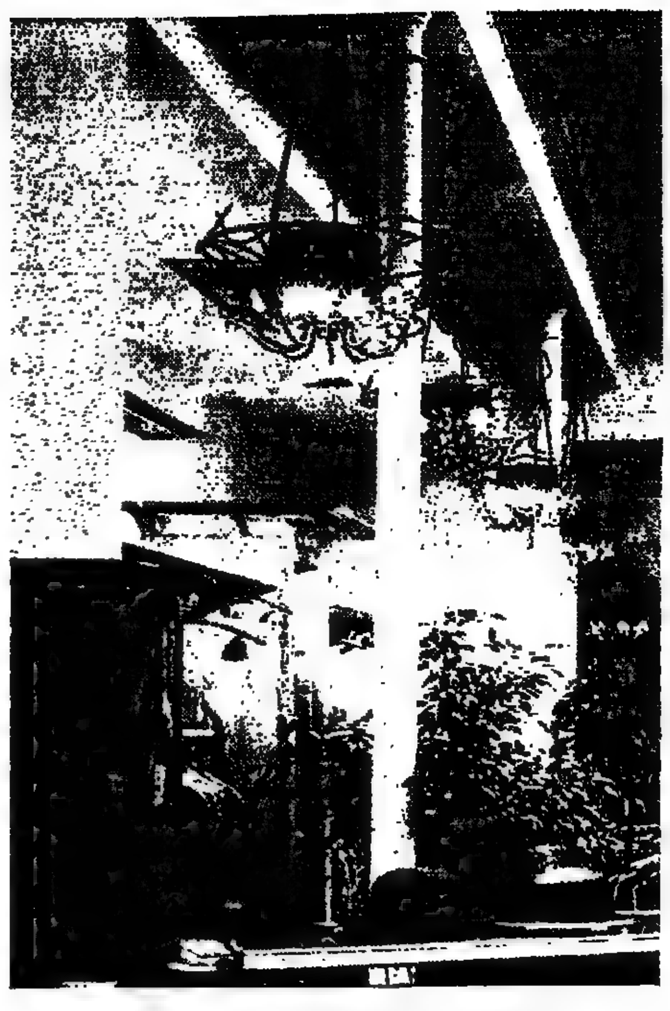
Liberty, London's Regent Street store, has a consistent record of commissioning for sale the work of leading designers. Architecturally it has not really had the opportunity to do more than maintain the eccentric character of its Tudorbethan headquarters in Regent Street. But it grasped the nettle in Glasgow's Buchanan Street and commissioned Harper Mackay to design its new store and advise the company about its architectural future.

Despite – or because of - its design awareness, Liberty brings with its name a look or image that could constrain any designer. It would be tempting for any architect to kit himself out in Liberty print silk boxer shorts, don the floral tie and sit at the drawing board musing on the arts and crafts. Harper Mackay had other ideas. Its work for Ted Baker's shirt shops, Clifton Nurseries, and Hobbs Limited fashion stores among other shops in London and Glasgow, had already given the firm considerable practical experience. It looked hard at Liberty's tradition and made something new of it.

The Buchanan Street store had a low dark basement area which now gives a special focus to the shop. The architects have used it to create a large double height space at the centre of the building that takes light down below. It makes a good area for the display of oriental rugs and is reminiscent of the London shop. The removal of the old false ceilings exposed four cast iron columns and allowed for the installation of a coloured skylight. The other immediately striking thing is the high quality of the materials; marvellous oak panelled walls, solid shelves and specially designed lighting. On the main floor the shop fittings, shelf units and wall-hung shelves all manage to have the air of something new and yet they might have been designed by Voysey. In their tallness and slightly stretched appearance there is a hint, and mercifully only a hint, of Mackintosh.

Harper Mackay, as a firm, designs furniture, lighting and graphics, and much of the furniture is specially made. The oak tables and chests of drawers have their bases protected by beaten metal shoes. Each piece of furniture has a strong character but one consistent with the shop as a whole. The use of metal for the extraordinary wrought iron chandeliers on the main floor is highly original and successful. The whole interior is rampant with the flavour and indeed the ethos of Liberty's, but it is original, and powerfully designed in its own right.

The practice, working with Doug Clelland, has recently designed half an urban block in Stuttgart for a competition. Its solution managed to do so many of the things cities need and demonstrated that the practice is capable of tackling town planning problems. It concealed the parking beneath landscape courts; insisted upon a greater mixture of uses instead of the dreaded, universal "shops 'n offices"; and managed a variety of scales of residential accommodation.



Harper Mackay's design for the interior of Liberty's new shop in Glasgow

Future work includes more for Liberty, this time in Regent Street; a museum in Bayswater, London; and the practice has been interviewed for the refurbishment of an airport terminal. How encouraging it would be if airports could be released from the tyranny of the bazaar of badly designed retail units.

The personality of this practice lies in its careful and controlled simplicity of line and an enjoyment of the use of good, lasting solid materials. The result is an elegance that is both practical and lasting.

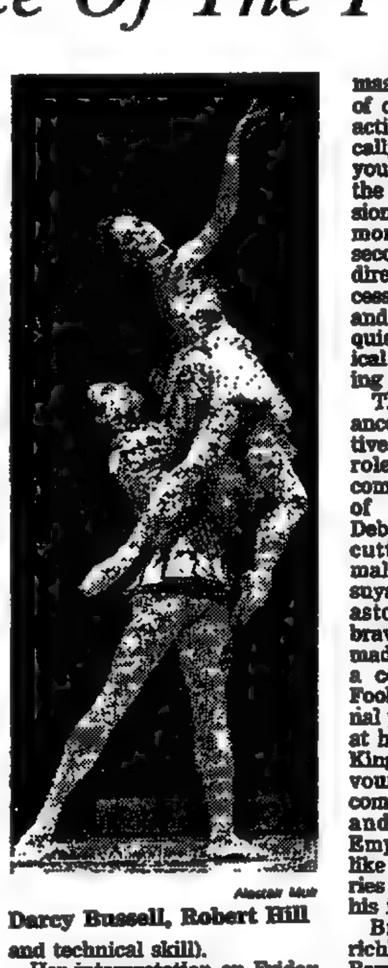
**Colin Amery**

# The Prince Of The Pagodas

**COVENT GARDEN**

Has a major choreographer ever paid such grand tribute to a youthful talent as Sir Kenneth MacMillan does to Darcey Bussell in *The Prince of the Pagodas*? On Friday night, as the Royal Ballet season opened and *Pagodas* began its second repertory year, I was struck again by the resonances with *Sleeping Beauty*. In form, and even in choreographic device, MacMillan looks with knowledge and understanding (not always the same thing in ballet) at Petipa's classic disciplines and makes his loving comment, and nowhere more beautifully than in the writing for Darcey Bussell as Princess Rose.

Miss Bussell has been blessed in many ways. She has youth, beauty, grace, great talent; her studies have given her a glorious technique; her temperament – and her teachers – have shown her how to use it without vulgarity; and MacMillan has challenged her young artistry, given it purpose, an identity, and the blessing of a massive role lovingly and wisely fashioned for her. The result is something unique in the annals of the Royal Ballet by reason of Miss Bussell's tender years. The big Ashton/Fonteyn, MacMillan/Seymour collaborations came when the ballerina was already an assured artist. Darcey Bussell *can still take the stage as a* girl, with a girl's innocent radiance for Princess Rose, and touch our hearts. (But she can, as we saw last season in *Song of the Earth*, dance with an essential womanliness that is not precocious but a further development of her dramatic and technical skill).



Alastair Muir

Darcy Bussell, Robert Hill

*Her interpretation on Friday* night seemed better than ever, the dancing and feeling sprung from the very heart of the choreography. In matter of movement, her arrowy jump, the quiet prodigies that are so seamlessly part of the dance text, are amazing. For all the massive artifice and difficulty of classic style, Miss Bussell's actions look natural, easy, lyrically free, and in this lies her youthful genius. Her playing of the key scenes – her compassion for the Salamander; her moments of fear during the second act – is a touchingly direct, yet subtle, dramatic process marked by a rare clarity and simplicity of means. In its quiet tenderness as in its physical lustre, Miss Bussell's reading is a marvel.

The Prince of this peformance was Robert Hill, an attentive partner, able to give the role its proper dignity, and communicating every moment of the salamander's grief. Deborah Bull had a fine and cutting way with Epine's malevolent dances, and Tetsuya Kumakawa repeated his astonishing combination of bravura steps – the impossible made sunnily possible – with a cool Zen presence as the Fool. In the other roles, original performers now clearly feel at home; the variations for the Kings have strong physical flavour (William Trevitt a welcome new King of the West), and Anthony Dowell's Emperor looks increasingly like Lear on speed, amid flurries of impotence which lead to his final little jig of triumph.

Britten's score sounded richly sonorous under Richard *Bernas. Its abiding faults are of* incidents over-extended, and Mr Bernas may have to drive the music rather harder in future to help mask this.

**Clement Crisp**

# The Loneliness of the Long-Distance Runner

**GROVE THEATRE, W.10**

It is 31 years since the publication of Alan Sillitoe's fable about a Borstal boy, *The Loneliness of the Long-Distance Runner*. But as this excellent dramatic adaptation, lasting just over an hour, proves, it does not seem at all out of date. Young offenders continue to offend and to receive custodial sentences, the effect of which is to make many of them offend again as soon as they are released.

Sillitoe's Colin, given a dazzling performance by Paul Brennen as a mature skin-head in a track-suit and training-shoes, is one of these habitual offenders, a born recidivist.

The original story enables us to understand the reasons for this in a series of flashbacks and these are skilfully preserved in the adaptation here by Brennen and Stephen Jameson. Col's father, a victim of industrial pollution, dies coughing blood before his eyes.

This horrific episode is vividly depicted by Ian Michie. He deploys a variety of voices, taking all the other roles in this lively two-man show, presented in a dark space on the first floor of a pub in Ladbroke Grove.

*A stout deal table is the* single all-purpose item of property, becoming shifted or up-ended to indicate whenever the scene changes. We see inside the boy's home where Col's Mum is more concerned to have it off with her fancy-men than provide for her son. Left thus to his own devices he becomes an expert breaker and enterer, stashing his ill-gotten gains in the outside drain-pipe.

The rainstorm which dislodges the pound notes to the incredulous gaze of a police-inspector is another memorable incident in the tale which does not defeat the ingenuity of the show's director, Martin Clunes.

After that it is a fair cop and Col finds himself in the nick being harangued by a plummy-voiced governor telling him: "If you play ball with us, we'll play ball with you."

The remark has some point to it because Col proves to have a hidden talent which the Governor wants to exploit. He covets the national trophy awarded to Borstal inmates for long-distance running. Col can get it for him.

As in the book, the best part is Col's long monologue on his work-out at crack of dawn – "Trot-trot-trot, slap-slap-slap, over the stream and into the wood where its almost dark and frosty-dew twigs sting my legs." Brennen communicates the joyous sense of release here just as convincingly as he conveys *the vicious revenge-joy which* Col evinces when he defeats the governor's cherished expectations and throws the race.

This is fringe work at its very best.

**Anthony Curtis**

# ARTS GUIDE

## October 19-25

### MUSIC

**London**

BBC Symphony Orchestra conducted by Andrew Davies with Kyoko Takezawa (violin) performing works by Stravinsky, Prokofiev and Rachmaninov (Mon). Royal Festival Hall (071 928 8800).
English Sinfonia conducted by Sir Charles Groves: a maritime extravaganza to celebrate the silver jubilee of a campaign to save the British coastline: Tchaikovsky, Mendelssohn, Elgar and others (Tue). Royal Festival Hall (071 928 8800).
London Symphony Orchestra conducted by Colin Davis with Anne-Sophie Mutter (violin) playing Stravinsky; Frans Helmerson (cello) playing Brahms (Tue). Barbican (071 638 4141).
Maurizio Pollini (piano) plays Beethoven's 33 variations on a waltz by Diabelli and other works (Wed). Royal Festival Hall (071 928 8800).
English Chamber Orchestra conducted by Jeffrey Tate with Mitsuko Uchida playing Beethoven's Piano Concerto No 2. Preceded by Symphony No 1 with Hans-Werner Henze. (Wed). Barbican (071 638 4141).
Hausmusik with quintets by Schubert (Trout) and Weber's Clarinet in B (Wed). Queen Elizabeth Hall (071 928 8800)
Britten String Quartet perform Tippett and Beethoven (Thur). Royal Festival Hall (071 928 8800).

**Paris**

Nikita Magaloff, piano. Chopin (Mon). Salle Pleyel (45638873).
Quatuor Borodine. Borodin, Stravinsky, Brahms (Tue). Théâtre des Champs Elysées (47203637).
Orchestre Symphonique Français conducted by Laurent Petitgirard, Paul Tortelier, cello. Roussel, Tchaikovsky, Beethoven (Tue). Salle Pleyel (45638873).
Orchestre Philharmonique de Radio France conducted by Reinhard Peters, Joshua Bell, violin. Mendelssohn, Mozart, Haydn (Wed). Radio France-Grand Auditorium (42302308).
Ensemble Intercontemporain conducted by Peter Eotvos, Phyllis Bryn-Julson, soprano, Zoltan Kocsis, piano, King's Singers. Eotvos, Ligeti, Kurtag (Wed). Théâtre des Champs Elysées (47203637).
Dietrich Fischer-Dieskau recital. Poems by Michelangelo, Goethe, Mörike set to music by Wolf (Wed). Salle Pleyel (45638873).
Orchestre National de France conducted by Emmanuel Krivine, Randolf Kelly, alto. Ives, Walton, Berlioz, Mendelssohn (Thur). Théâtre des Champs Elysées (47203637).
Orchestre de Paris conducted by Semyon Bychkov, Justus Frantz (piano). Mozart, Mahler (Thur) Salle Pleyel (45638873).

**Frankfurt**

Frankfurt's Opera and Museum Orchestra under Ulf Schirmer with Gilsha Ham (violin) play Beethoven, Korngold and Bruckner (Mon). Alte Oper.
Julia Varady Lieder recital with pianist Elena Baschkirowa. With songs by Mozart and Strauss (Mon). Mozartsaal.
Royal Philharmonic Orchestra under Vladimir Ashkenazy with Shostakovitch, Debussy and Skriabin (Tues). Mozartsaal.
Vienna Philharmonic Orchestra under Riccardo Muti with Mozart and Schubert (Wed). Mozartsaal.

**Berlin**

Leipzig Gewandthausorchestra under Kurt Masur. Brahms (Mon).Schauspielhaus.
Berlin Philharmonic Orchestra under Daniel Barenboim. Beethoven, Hoeller and Bruckner (Wed, Thurs). Philharmonie.

**Munich**

The Vienna Philharmonic under Riccardo Muti. Beethoven, Brahms (Mon). Kongressaal des Deutschen Museums.

**Amsterdam**

Christian Bor (violin) and Rian de Waal (piano). Franck, Respighi (Mon). Concertgebouw (718 345).
Amsterdam Bach Soloists with Paul Verbey (flute). Thomas Hengelbrock conducting (Tue). Concertgebouw (718 345).
Melos Quartet. Hindemith, Mozart, Janacek (Wed). Concertgebouw (718 345).
Royal Concertgebouw Orchestra with Ronald Brautigam (piano). Riccardo Chailly conducting. Schönberg, Ligeti, van Keulen, Varese (Thur). Concertgebouw (718 345).

**Utrecht**

Netherlands Chamber Orchestra and Choir with vocal soloists conducted by Hartmut Haenchen. Mozart, Webern, Schonberg (Wed). Vredenburg (31 45 44).
Choir and Baroque Orchestra of the Netherlands Bach Society conducted by Jos van Veldhoven with the world premiere of Bach's Kothener Trauer-Music as reconstructed by Jos van Veldhoven (Thur). Vredenburg (31 45 44).

**Antwerp**

Belgian Chamber Music Group conducted by Guido De Neve and Christel Kessels: works by D'Haene, Mortelmans, Swerts, Vellere, Ysaye (Tues).
BRT Chorus and Moi Percussion Ensemble conducted by Vic Nees performs works of Bartok, Stravinsky and Van Hove (Thur). De Singel (03-248 38 00).
Royal Flanders Opera Symphony Orchestra conducted by Rudolf Werthen with the Flying Pickets and the Alan Parsons Project plays popular works of Bernstein, Bizet, Ravel, Rossini and Tchaikovsky (Thur). Sportpaleis (03-255 45 44).

**Brussels**

Musica Antiqua of Cologne conducted by Reinhard Goebel performs works of Pezel, Purcell and von Biber (Thur). Palais des Beaux-Arts.

**Madrid**

Prague Chamber Orchestra. Dvorak, Martinu, Vivaldi, Haydn (Tues). Auditorio Nacional de Musica (337 01 00).
Reina Sofia Chamber Orchestra conducted by Nicolas Chumachenco (also violin). J.S. Bach, Bartok (Thur). Auditorio Nacional de Musica (337 01 00).
USSR Symphony Orchestra conducted by Yevgeny Svetlanov, with Andrei Jorsakov (violin). Rimsky-Korsakov, Glazunov, Rachmaninov (Thur). Auditorio Nacional de Musica (337 01 00).

**Bologna**

Academy of St Martin in the Fields with conductor and solo violin Iona Brown playing Vivaldi, Handel and Mozart (Mon), also Jia Lu conducting Beethoven and Max Reger (Wed, Thur). Teatro Comunale (529999).

**Rome**

Richard Stoltzman (clarinet), Lucy Stoltzman (violin) and Derek Han playing Milhaud, Poulenc, Fauré, Mozart and Stravinsky. (Thur). Teatro Olimpico (393304).
Gonfalone Chamber Orchestra conducted by Silvano Corsi, with Mauro Maur (baroque trumpet), playing Hummel, Neruda and Padrebel (Thur). Oratorio del Gonfalone Church of St Agnese in Agone, Piazza Navona (6875952).

**New York**

Jessye Norman soprano recital. Mixed programme (Mon). Carnegie Hall (247 7400).
New York Philharmonic conducted by Leonard Slatkin with Glenn Dicterow (piano). Beethoven, Shostakovich (Tue); Erich Leinsdorf conducting, with Alicia De Larrocha (piano). Wagner, Mozart, Falla, Ravel (Thur). Avery Fisher Hall, Lincoln Center (874 6770).
Japan Philharmonic conducted by Ken-ichiro Kobayashi with Ikuyo Nakaminci (piano). Takemitsu, Beethoven, Tchaikovsky (Wed). Avery Fisher Hall, Lincoln Center (874 6770).
New York Philomusica conducted by Robert Johnson. Hamilton, Harbison, Schubert (Thur). Merkin Hall (362 8719).

**Washington**

Japan Philharmonic conducted by Ken-ichiro Kobayashi with Ikuyo Nakaminci (piano). Takemitsu, Gray, Tchaikovsky (Tue). Concert Hall, Kennedy Center (467 4600).
Leningrad Philharmonic conducted by Yuri Temirkanov with Dmitri Alexeen (piano). Prokofiev, Tchaikovsky (Thur). Concert Hall, Kennedy Center (467 4600).

**Chicago**

Chicago Symphony Orchestra conducted by Michael Morgan. Still, Strauss, Diamond, Dvorak (Tue); Lorin Maazel conducting with Fraqnk Peter Zimmermann (violin) and the women of the Chicgo Symphony Chorus. Holst, Prokofiev, Shchedrin (Thur). Orchestra Hall (435 3322).

**Tokyo**

Tokyo Metropolitan Symphony Orchestra, conducted by Yuzoh Toyama. Music by the contemporary Japanese composer, Hikaru Hayashi. Suntory Hall. (Tues, 505 1010).
NHK Symphony Orchestra, conducted by Ferdinand Leitner, with Josef Suk (violin), Michaela Fukacova (cello). Brahms, Haydn, Mozart. NHK Hall. (Wed, Thurs, 465 1781).
Stuttgart Radio Symphony Orchestra, conducted by Gianluigi Gelmetti, with Salvatore Accardo (violin). Mendelssohn, Beethoven. Suntory Hall. (Wed, 505 1010).

SALEROOM

# Rare bellows tempt dealer

The sum of Fr100,000 may appear a lot for a pair of bellows – even an exceptional Louix XIV model in red tortoiseshell, copper and bronze marquetry. But that was the amount – five times its low estimate – which was paid on Saturday by Paris's leading dealer in boulle marquetry objects and furniture. He said he had never seen bellows so rare or beautiful.

Most of the other 193 lots in the sale, directed at Drouot Montaigne by Jean-Louis Picard of Ader Picard Tajan, stuck closer to their estimates which were deliberately modest to cater for a morose financial atmosphere. But as Paris's autumn season of auctions gets under way with poor modern painting results confirming stagnation in that field the Picard sale of part of the private art collection of "un grand amateur" proved that objects of exceptional quality still find serious buyers.

The sale, attended by every leading French dealer, comprised the most important collection of Nevers faience to be seen in a saleroom in 50 years, along with 16th to 18th century Italian and Lyon earthenware, medieval, Renaissance and 18th century French sculpture furniture and objet d'art. It netted just over Fr28m, with only a handful of lots, representing a mere 0.7 per cent of total sales, bought in.

The first lots of 16th century polychrome Italian and Lyons faience sold well and the 50 items of 17th to 18th century Nevers – much with lace-like white motifs on "bleu persan" grounds – proved even more popular. Several lots with blotchy "a la bougie" patterns shot many times over their estimates and a 17th century polychrome basin was pre-empted by the Louvre after bidding finished at 170,000Fr.

Eighteenth century lacquered tinplate glassholders in nigh-perfect condition, which is extremely unusual, shot up to 45,000 and 90,000Fr, six times their estimate. An exceptional mid-eighteenth century toiletries case in coloured straw marquetry sold just above its estimate at Fr110,000: an equally rare pair of straw marquetry corner cupboards, impossible to restore to their original freshness because of their fragility, went for Fr850,000.

A perfectly preserved small Regency period casket meanwhile, in brown tortoiseshell and mother-of-pearl marquetry, soared up to Fr520,000 and an exceptionally fine pair of Louis XV sculpted bronze horses, 21 inches high, reached a stunning Fr4.6m – more than four times what experts hoped for.

**Nicholas Powell**

FINANCIAL TIMES

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Monday October 22 1990

# Mr Kohl's big blunder

SINCE the unification of Germany in early October, its partners have been waiting to find out what sort of power it would turn out to be. They did not have long to wait. From Mr Helmut Kohl's intervention in the European Community's farm policy debate last week, they may conclude that Germany will prove both inward-looking and insensitive.

Mr Kohl not only advised Mr Jacques Delors, the president of the EC Commission, of his opposition to the Commission's all too modest proposal for reform of the EC's costly farm policy. He also linked the EC stance on farm reform to Germany's commitment to other developments in the EC, such as monetary union.

By this intervention, Mr Kohl did more than put the Uruguay round of multilateral trade negotiations at risk. He weakened the capacity of the EC to function internationally and re-awakened dormant fears about how the new Germany might behave.

Mr Hans-Dietrich Genscher, the German foreign minister, has promised that Germany would pursue the politics of the "good example". If this was a good example, what might a bad one look like?

The world trading system is an inverted pyramid that rests on Mr Kohl's hand. Furthest in the air is liberal and multilateral world trade, the survival of which depends on success in a four-year negotiation that now has scarcely more than a month to run. This negotiation will fail if a compromise is not reached on agriculture, one that meets the commitment of the mid-term review to substantial and progressive reductions in farm support.

## Bare minimum

As the world's most important trading power, the EC has a duty to put forward a proposal on agriculture that can form the basis of negotiations in Geneva. What the Commission has proposed – a 30 per cent cut in aggregate farm support below a 1986 base – may have been a bare minimum. But it was at least a start. Unfortunately, the farm ministers have failed to agree even upon these rather paltry proposals, one result being that the EC is already a week late in tabling its ideas in Geneva. The man most responsible for that failure is Germany's farm minister, Mr Ignaz Kiechle. But, behind him, it is now clear, stands Mr Kohl, a man who seems prepared to let the whole pyramid topple.

What can have persuaded him to take such a course? As with the not so different story of the Polish borders, the answer is electoral politics. These huge risks – both to Germany's role in Europe and to the EC s role in the world – are being run to cement an electoral victory that is already nigh on certain. Rarely can one man have been prepared to risk so much for so little.

## Toy farms

Mr Kohl should think again. The incomes of inefficient part-time farmers in the toy farms of the west and of underemployed workers in the socialised farms of the east cannot be brought to the levels they desire through any feasible subsidies to output. The only hope is direct income support.

Farmers may object to being left naked as recipients of welfare, but that is precisely what they are. According to the OECD, 38 per cent of the total income of EC farmers was provided by subsidies in 1989, while the total cost to taxpayers and consumers amounted to Ecu 88.5bn (£60bn), or no less than Ecu 9,000 per person engaged in farming. These policies must now be transformed into ones that do not distort world output and trade.

Not merely reform of EC agriculture and its role in the international trading system, but also its capacity to be a responsible international partner are at stake. It is Mr Kohl who will determine how the game is decided. He can accept that the levels of assistance to EC agricultural output must be put on a steady downward course or he can persist in hazarding the liberal international economy, on which Germany itself depends, for the sake of its inefficient farmers.

If Mr Kohl does not shift his stance at once, both he and his newly united country will have met their first major test together – and have unambiguously failed. The Chancellor has changed his mind before. He should do so again.

# Dollar in retreat

THESE ARE tense times in the United States. Amid the wrangling over the budget the threat of recession has drawn steadily nearer. Meanwhile, the dollar has been falling against other leading currencies since the Gulf crisis began, an event that would have been expected to strengthen it.

The nominal value of the dollar has fallen by 12 per cent against the Yen and 10 per cent against the D-mark since the end of 1989. Without higher US interest rates a decline in the value of the dollar has been inevitable. But, if allowed to get out of control, a free-falling dollar could pose a serious threat to economic stability, both within and outside the US. Neglect, be it benign or malign, is not an option.

The fact that the dollar has fallen is hardly surprising. Japan and Germany both have lower inflation and brighter prospects than the US. Yet the three month interest rate is higher in Germany than in the US, and less than a half percentage point lower in Japan. The dollar has needed to fall for it to remain attractive to foreign investors. The lower value of the dollar has made US assets cheaper, while the prospect of an appreciation, once it has fallen sufficiently, will eventually persuade investors to hold dollars again at a constant exchange rate.

The dollar's fall appears to be of little concern to US policy-makers, who put the maintenance of domestic economic stability ahead of stabilising the nominal value of the dollar. This is understandable. When the economy is entering a period of slow or negative growth, the rise in interest rates needed to stabilise the currency would be politically and economically costly.

## Investors' fears

None the less, their indifference is risky and should certainly not lead to acceptance of significantly lower interest rates. US real interest rates, at 2.5 per cent, are already low by international standards. Lower nominal rates might come too late to prevent recession, given the long lags associated with shifts in the monetary stance. More importantly, they might accelerate the decline in the dollar to an undesirable degree, by confirming investors' fears that the US welcomes depreciation and is indifferent to inflation. Long bond rates might then be pushed upwards, with damaging consequences for distressed US corporations. To halt this decline, a substantial and painful rise in short rates might be required. The policy would then have proved self-defeating.

## Rapid depreciation

Rapid dollar depreciation would also have repercussions outside the US. At present, the depreciation of the dollar will not receive an unfavourable response from the central banks of either Germany or Japan. Both countries have continued to experience strong growth in domestic demand and are happy to find their exchange rates appreciating against the dollar.

Again, this is not true without limit. The current level of the US dollar makes US exports highly competitive in world markets. The real effective dollar exchange rate, adjusting for changes in relative labour costs, is 36 per cent lower than at the time of the Plaza accord in September 1985, and 3.6 per cent lower than its previous low in 1979. A further sustained fall in the dollar will export either unemployment, as the competitiveness of US producers increases still further, or inflation, as foreign central banks intervene to support the value of the dollar.

Impending recession, the fragile state of the the US banking system, and the budget stalemate all reduce the monetary policy options available to the US monetary authorities. But if the dollar's fall continues, higher interest rates may prove inevitable.

If the markets judge such an increase in interest rates to be out of the question, the danger of a rapid collapse of the dollar is increased. It is a serious mistake for senior US policy-makers to treat the falling dollar with such blithe disregard in their public pronouncements. The best way to avoid a rise in interest rates may be to put the possibility back on the policy agenda. It is certainly not to push for lower rates regardless.

Industrial policy is no longer a taboo phrase in the EC vocabulary, says **Guy de Jonquières**

# Giving direction to the single market


As 1992 approaches, a long banished phrase is being reinstated in the Brussels lexicon. Suddenly, it is again respectable – even fashionable – in the European Community to speak of industrial policy.

Until recently these two words, tarred by past association with heavy-handed interventionism and lame ducks, seemed out of place in a Europe where even socialist governments have in the past decade embraced liberal economic policies and the disciplines of the market.

But as long-standing national barriers crumble, the European Commission, governments and many larger companies are arguing that the Community needs to establish a more coherent policy framework to guide the development of its single market.

EC industry ministers are due to take up the debate at a meeting next month. It is unlikely to run smoothly. There are profound differences of opinion over what the objectives of a European industrial policy should be – or whether one is needed at all – and they have been accentuated by the economic uncertainties stemming from the Gulf crisis.

None the less, the debate crystallises a number of unresolved issues on which the Community is under increasing pressure to make up its mind as the pace of economic integration accelerates. Among the most important questions are:

- The role of EC competition and external trade policies.
- The measures needed to promote Europe's industrial competitiveness.
- The trade-off between economic efficiency and regional development.
- The division of policy-making responsibility between the Commission and EC governments.

The positions of EC governments fall broadly into two camps. Britain, Germany and the Netherlands take a broadly liberal market-oriented approach, while the Mediterranean countries lean towards interventionism and the promotion of European industrial "champions".

The dividing lines are not entirely clear-cut. Italy, while ardently proclaiming its readiness to surrender monetary and political sovereignty to the EC, stubbornly opposes any extension of Brussels' control over subsidies and state-owned industries. France, meanwhile, appears to hover between the two camps.

The surprise element is the attitude of the European Commission, often accused of being irredeemably addicted to meddling in other people's affairs. Yet recent months have produced a turn in the tide, giving ascendancy to the forces of liberalism.

Among the evidence is a draft Commission document which seeks to set out principles for an industrial policy. It condemns sectoral intervention as counter-productive and broadly supports competition and free trade as the most effective means of promoting healthy industrial adjustment.

The document is intended as a basis for next month's ministerial meeting and to respond to lobbying by large companies including Philips of the Netherlands and Peugeot of France. These companies have latched on to the industrial policy debate to advocate what many Brussels officials view as thinly-veiled protectionism.

The document is the more remarkable for having emanated from the industry directorate (DG III), long regarded as home to the *dirigiste* tendency. But following a recent shake-up in its senior ranks, the directorate is rushing to mend fences with the free-marketeers in the Commission's competition division, traditionally its sworn enemy.

Another sign of change is a less hawkish stance towards Japan, reflected in a less energetic pursuit by the Commission of anti-dumping investigations directed at Japanese companies. The number of such investigations has declined steadily from 10 in 1987 to only one so far this year.

The Commission's bilateral trade tactics are now focused more on trying to persuade Japan to open its domestic market. Progress is proving slow largely, some in Brussels believe, because Tokyo has concluded that the EC has ruled out the option of "Fortress Europe" retaliation.

Mr Jacques Delors, the Commission president, continues – especially when in France – to fulminate publicly about Japan. But privately he is said not to contest the liberals' arguments strongly.

The new mood may be due partly to a tactical desire to appear conciliatory in the final stages of the General Agreement on Tariffs and Trade Uruguay Round, the more so since the EC's stance on agriculture has attracted widespread international criticism. However, there are reasons to suggest the shift goes deeper.

One is the increasingly evident disenchantment in Brussels with recent EC experiments in industrial intervention. Some officials now argue that the Davignon "crisis" regime for the steel industry in the 1980s retarded, rather than accelerated, adjustment. Sir Leon Brittan, the competition commissioner, wants to repeal the Paris Treaty which gives the EC special powers to intervene in steel.

But the crucial test case is the information technology (IT) sector. In the name of promoting a strong and independent European capacity in high-technology, the EC spends Ecu 1.75bn (£1.22bn) a year on research, much of it on subsidies to collaborative industry programmes such as Esprit and the Jessi microchip venture. The Commission has also yielded repeatedly to demands for trade protection by large electronics companies such as Philips and Thomson of France.

Yet the condition of the European electronics industry has continued to deteriorate. Philips is in a financial crisis, and many other companies are also in loss or barely profitable. The EC's trade deficit on IT has grown, and European-owned producers' share of the market for chips and many electronics products has declined.

At the upper levels of the Commission, patience is wearing thin. "I am totally sceptical about the purpose of these collaborative programmes," says one highly-placed EC official. "The companies have not carried out their part of the bargain. Instead of using Community money to speed up product innovation and improve productivity, they have accumulated war chests to buy each other up."


Blame is increasingly placed on DG XIII, the powerful Commission division responsible for administering programmes such as Esprit. Critics accuse it of being more interested in empire-building and forging cosy links with industry than in devising effective technology policies. "Changing the attitudes of our own policy-makers is our biggest problem," says one official.

A watershed may have been reached with the proposed takeover of ICL, Britain's largest computer maker, by Fujitsu of Japan. Many officials in Brussels regret the deal. But they also say it shows up the ultimate futility, in an age of internationally mobile capital, of pursuing policies designed exclusively to benefit European-owned producers.

Some think vigorous use of anti-dumping has backfired by prompting Japanese companies to deepen their penetration of the European market by setting up plants inside the EC. They also criticise the systematic exclusion of Japanese companies from prestige programmes such as Esprit. That, they argue, has encouraged the Japanese to buy European companies in an attempt to join the close-knit industry "club" which influences Commission policies in electronics.

"We never wanted Trojan horses in Europe. But the fact is they're here and there is nothing we can do about it," says an adviser to a senior commissioner not noted for pro-Japanese sentiments. He thinks EC policies should be re-oriented to benefit all electronics companies with substantial investments in the Community, regardless of their ownership.

A second reason for the Commission's changed attitudes stems from its commitment to 1992. It knows its own political authority and much of the momentum behind monetary and political union are closely tied to the success of the single market programme. Self-interest has led Brussels to ally itself increasingly with liberal EC governments in its drive to abolish internal trade barriers.

The tactic has not, however, always been easy to pull off. In trying to persuade France, Italy and Spain to open their markets to Japanese cars, the Commission has been obliged not only to propose temporary EC restraints on Japanese imports but also to acknowledge that such curbs can be enforced only by maintaining trade barriers inside the Community.

Recently, the less settled economic outlook has imparted increasing urgency to the Commission's efforts to consolidate the single market. Some officials, fearing a recession would cause EC governments to revert to more nationalistic policies, believe they are in a race against time to entrench the progress made so far.

Even if the more pessimistic prognoses prove wrong, the stage appears set for a long, hard political struggle. Now that much EC legislation on bread-and-butter issues such as industrial standards and banking regulation has been dealt with, the drive towards 1992 is moving deeper into the heartland of national government prerogative and sovereign interest.

The battle lines seem likely to be drawn along the axis of EC competition policy, the only important field in which the Commission has autonomous powers. Sir Leon Brittan has declared his intention, in particular, to wage war on illicit government subsidies, which he considers as damaging as trade barriers to free competition in a single market.

His recent decision to tighten controls on state-owned industries has angered Italy and some other countries, which argue that he is exceeding his authority. Other rows are looming over national aids to regional development and over inward investment incentives.

Sir Leon has proven adept so far at winning tough political battles. He is seeking to cement these victories by establishing stricter and more transparent mechanisms for judging the legality of state aids and, in particular, of regional and sectoral subsidies.

His problem, however, is not just intransigence among EC governments, but that he cannot be sure of support from his 16 fellow commissioners. A number do not share his view that competition should be the overriding criterion for deciding on state aids and merger cases.

Furthermore, in the current Commission, unlike its immediate predecessor, there is no strong alliance of like-minded liberals. On every issue, coalitions have to be painstakingly built from scratch. That can only become harder as competition policy impinges more on sensitive national concerns, prompting some Commission members to side with the governments which appointed them.

Commissioners defending sensitive national interests are also often supported by colleagues who fear their own countries may be next in the firing line. One seasoned Brussels hand reckons that if Sir Leon decided to veto any of the national flag airline mergers now pending in Europe, he could not command a majority in the Commission.

Some observers see in this behaviour a more general difficulty confronting any attempt to construct a tidy framework for the conduct of a European industrial policy. They believe that even if the Community could agree a firm set of principles, the temptation to renege on them when the going got rough would prove irresistible.

For these reasons, even the most enthusiastic advocates of the liberal ascendancy in Brussels are wondering how long their run of luck will last. "The 1980s were the decade of free-market policies in Europe," says one. "But there is a risk that the trend will be reversed in the 1990s, and that what we are doing will turn out to be a last hurrah."

# OBSERVER

## Four years for engineers

■ "Quite monstrous", is how Sir Eric Ash, rector of Imperial College, London greets rumours that educationalists might eliminate the calculus from A-level mathematics in order to make life easier for students.

Ash, who is a physicist, says he finds the idea of someone claiming to be educated, yet having no calculus, on a par with admitting no knowledge of Shakespeare's writings.

The calculus affair coincides with him revealing Imperial College's plans to make all its first degree engineering courses last four years instead of three.

His new curriculum for a four year engineering course leading to a *Master of Engineering* (M.Eng.) degree is designed to drag British engineers into the same modern world as the Germans and the French.

Engineering is all about applying the knowledge gleaned by scientists to do something useful. And the problem for the dons, says Ash, is that knowledge is growing so rapidly – at about 10 per cent a year.

German engineering courses now run to about six years. Ash believes he will achieve "rough parity" for Britain with his four-year courses. He claims that can be achieved because British students start their university education at a higher standard.

He will also encourage students to study overseas for one year.

## Seldom seen

■ The British Invisible Exports Council, a City-based pressure group for export-oriented services companies, is trying to become more visible.

As a modest start it is changing its name to British Invisibles.

Another part of the plan is to widen its sphere of interest. Up to now the council has concentrated on the somewhat dry area of promoting Britain's financial services industry and reckoning how much it earns overseas.

Now it is getting to grips with much grittier problems – even down to cutting queues at airports. Lord Limerick, the chairman, is much perturbed at the harm being done to Britain's reputation as a financial centre by the queues through passport control at Heathrow Airport.

A Canadian friend of his had to wait for an hour recently at the non-European Community desk while his lordship sailed straight through the section for EC nationals.

A new challenge for British Invisibles.


"The crypto-communists voted tactically".

## Market rates

■ The Nicaraguan government is facing rebellion on several fronts as it tries to bring order to the country's chaotic economy, which has been further damaged by the recent surge in oil prices.

Now foreign diplomats have joined the rising chorus of protest by trade unions, disgruntled demobilised Contras, unemployed soldiers, farmers, and businessmen, all of whom are complaining about sky-rocketing prices.

The direct cause of the envoys' grievance are the bills for electricity and water now arriving at diplomats' homes and embassies in the plush residential suburbs of Las Colinas and Villa Panama.

The Soviet embassy is suddenly being faced with bills for its electricity and water of $40,000 each per month – a 10,000 per cent increase according to one of their diplomats.

One EC diplomat said: "We are all facing the same problem". East and west Europeans alike are refusing to pay the exorbitant bills.

The Papal Nuncio in Managua has been recruited to represents the diplomats and is leading some discreet negotiations with the foreign ministry in an effort to lower the tariffs.

The government's problem is that the whole country faces the increases. Monthly water and electricity bills now consume over 20 per cent of household budgets.

If the government gives in to the diplomats, it will also have to give in to the trade unions who have begun a "don't pay" campaign of civil disobedience against the government's economic policy. Many of the diplomats have been preaching economic reform to the new Nicaraguan government. None believed their advice would be taken so literally.

## Offshore stake

■ The liberalisation of Poland's economy has led a number of state-controlled companies to issue shares, some of uncertain value, as a route to privatisation.

Unsurprisingly, experience so far has been rather mixed.

But the import-export company THZ Skorimpex, which intends to offer shares at the weighty price of 1m zloties (£53.37) apiece early next year, has hit upon a novel inducement to woo the support of its overseas staff.

Those working in Skorimpex's overseas offices are being told that if they do subscribe, then their postings are likely to be extended – or not reduced.

In London staff are saving hard.

## Kit desert

■ Suspicions that the British Army was long ago infiltrated by French grammarians have been reinforced by the latest instructions on desert clothing for troops arriving in Saudi Arabia.

From his Cover Helmet Desert to the toecaps of his Boots Combat High the British soldier will be kitted out to confuse any student of English who may have the misfortune to confront him.

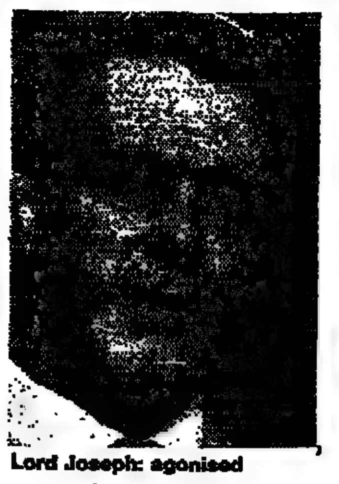
The Cover Helmet Desert is army-speak for desert helmet covers – the camouflage being supplied for the troops to stretch over their helmets. It' matches new all-cotton suits and protective vests.

Under this the troops will wear T-shirts NBC (standing for nuclear, biological, chemical) and underpants NBC. Glasses Anti-Glare are also being provided.

But, although the desert kit includes much that is new, Britain's soldiers sent out on Operation Granby will continue marching in their Boots Combat High Mk 1 (improved).

## Not a drop

■ The Canadian air force squadron deployed in the Gulf has found an appropriate name for its base in Qatar: Canada Dry One.



Lord Joseph: agonised

Milton Friedman: praise

John MacGregor: responsible

# A move towards worse inequality

**Michael Prowse** on the ways in which an educational voucher system might be used

Educational vouchers have been regarded for decades as a policy favoured only by cranky right-wingers. The monetarist Milton Friedman sang their praises in the 1950s but free-market America paid no attention. Lord Joseph, Mrs Thatcher's mentor and former education secretary, agonised over them in the early 1980s. Yet even he finally concluded that they were not a practical option for Britain.

It is surprising, therefore, to find the prime minister, usually a shrewd political operator, openly advocating a policy associated in many minds with right-wing extremism. Her sudden conversion is all the more ironic given that the 1988 Education Reform Act was supposedly the most far-reaching programme of reforms since the Butler legislation of 1944.

The problem is that this legislation failed to capture the public's imagination. The question is whether vouchers will prove any more enticing. They do not, it must be said, fully deserve their right-wing image.

Educational budgets have traditionally been allocated directly to schools. But there is no *a priori* reason why resources should not flow to parents in the form of tokens or vouchers. Parents could then present the vouchers to the schools of their choice in lieu of payment. The free market view is that the ensuing choice and competition would reduce costs and raise educational standards.

The government could restrict vouchers to parents who opt for the state sector; those using the private sector would then (as now) receive no public subsidy.

Mr MacGregor could justly argue that such such a limited voucher scheme would represent only a modest development of present policies. The 1988 Act introduced "open enrolment", which means that parents can choose between state schools without restriction. School budgets are also largely determined by the number of pupils they attract. In principle, funds follow pupils just as they would if parents received vouchers.

Yet although parents choose schools and funds follow pupils, the funding mechanism is rather obscure. Few parents in the state sector regard themselves as customers or purchasers; and most schools are probably more anxious to implement government directives than to cater to the wishes of parents.

Enthusiasts argue that vouchers would both bring home to parents the costs of education and underline their responsibility to make sensible choices on behalf of their children. They say that it would be easy to discriminate in favour of disadvantaged groups by giving such pupils specially large vouchers.

The more radical option would be to redistribute the education budget to all parents: in other words to allow vouchers to be spent in both the private and public sectors. Since the voucher would fall short of the fees charged by leading independent schools, "topping up" of vouchers would have to be permitted.

Several advantages are claimed for this more ambitious scheme. It would destroy the present state/private divide. All schools would be competing for pupils in an integrated market; all would be private but all would have access to public subsidy through the voucher. Some claim that such a unified market would help erode the class distinctions which remain a marked (and unsavoury) feature of British education.

The other big difference is that the share of national resources absorbed by education would no longer be largely determined by the outcome of the annual public spending negotiations. At present, parents face an either/or decision: they can accept "free" education in the state sector or pay heavy private fees. The latter option is feasible only for a small minority. The great majority, therefore, cannot choose what to spend on their children's education: this decision is made by politicians.

Under the reforms now contemplated, the government would remain the main player in the education market because it would determine the size of the voucher. But if topping up were allowed, many parents who cannot presently afford private fees would choose to spend something extra on their children's education. The total resources committed to education would rise because the cost of vouchers would merely set a lower bound.

With no nationally set ceiling on education spending, financial prospects for teachers and schools might improve markedly. Salaries could rise and buildings could be refurbished without placing strong upward pressure on public spending and taxation – a prospect that would delight many Tories.

**The radical option would be to redistribute the education budget to all parents**

For enthusiasts, the appeal of a full-blown voucher scheme is thus considerable. But critics can point to formidable disadvantages. The first concerns their practicality. Vouchers, it is said, would create intolerable instability: with parents able to move their children at will, schools would never be certain of their long-term prospects. Popular schools would rapidly run out of physical capacity while unpopular schools would go bankrupt.

Such difficulties loom large in the minds of bureaucrats. But they are probably exaggerated. In reality, parents do not tend to move their children more often than can be helped. Private schools, moreover, have long coped with the potential instability of a market system.

The transition to vouchers would certainly pose serious problems. If parents who now use the independent sector qualified for vouchers, the education budget would be spread more thinly. The voucher would thus not cover the cost of the present level of services offered in the state sector, let alone the required improvements. In effect, the introduction of vouchers would cause a sizeable transfer of resources from the state to the private sector – broadly speaking, from poor to rich.

However, it would be possible to claw back resources from the better off by taxing the voucher or introducing a means test.

For example, basic rate taxpayers might receive a full voucher while the subsidy could be progressively withdrawn from families in the 40 per cent tax band. Many parents who send their children to leading independent schools would thus not qualify for any subsidy.

But means testing would not solve what is by far the most serious drawback of a full-blown voucher system: its tendency to accentuate educational inequality.

The government would have to ensure that some schools charged no more than the standard voucher; otherwise some parents (for example those on welfare) would not be able to afford to educate their children. But such "voucher-only" schools would then form a "sink" tier of schools.

In most neighbourhoods, at least two higher tiers would probably emerge: an intermediate level of school for parents who can afford to top up the voucher but who cannot presently afford private fees; and a top tier for parents who can afford the more expensive independent schools.

Top up fees would enable schools to provide better qualified teachers, larger libraries, and more lavish sports facilities. The quality of education in the intermediate and top tiers would thus undoubtedly exceed that in the voucher-only schools.

Admittedly, the present system is far from equitable. Middle class parents buy a better education for their children either by paying private fees or by moving into an expensive residential area served by a good state comprehensive. But a top up voucher scheme would institutionalise a more pervasive inequality: educational standards would almost always, instead of only sometimes, be correlated with family income.

A voucher scheme limited to the state sector would probably be feasible. It would represent only a modest (albeit still controversial) extension of existing policies to promote choice and competition. But a scheme that straddled the private and public sectors – and hence permitted topping up – would be an extraordinarily risky social reform.

It would create a unified education market in which parents could choose how much to spend on education. Overall expenditure ceilings set in Whitehall would disappear. But the price of greater choice and competition would be much greater inequality of educational opportunity.

Those who care little about equality and have great faith the market will wholeheartedly support vouchers. But such people may well constitute only a minority of the electorate. Mrs Thatcher's flirtation with the policy Lord Joseph rejected could thus prove an electoral liability.

**Joe Rogaly** considers that there is still all to play for despite the Tory upset at Eastbourne

# The maths remain

Admirers of Mrs Margaret Thatcher do not like to hear that Thatcherism has run its course. It probably has, but the plain truth is that the game is not yet over. For the British prime minister stands a slim chance of winning a fourth election victory, and a good chance of preventing the Labour party from forming a government.

She needs to keep Tory losses down to just less than 50 seats to win her fourth term and below 100 to deny Labour its opportunity of ruling without the support of other parties. This has been true since she won a 100-seat majority in June 1987, and it remains true in spite of the loss of Eastbourne to the Liberal Democrats last Thursday. The rules of arithmetic do not change, even after a by-election upset. A week ago you could believe in a Labour victory if you assumed that Mr Neil Kinnock would lead his party to win a larger swing than any achieved against an incumbent government since the war; today you have to assume precisely the same turnaround.

There are other rules that may be as unchangeable as mathematics, although we cannot be so certain of these. One is that the gap between the two main parties always narrows as election day draws near. Labour may be 10 or more points ahead of the Conservatives in the opinion polls this year, but not even the most wildly optimistic of its strategists imagines that that will be the figure on the day of the general election itself.

A second rule is that protest votes cause by-election upsets, but melt away on the big day itself. There is a major difference between expressing dissatisfaction with the government of the day and choosing a new government for a fresh term of office. Over the weekend there has been some talk of a refinement of this proposition. In mid-Staffordshire, where the Tories suffered a grievous defeat in March, voters turned to Labour; in Eastbourne they turned to the Liberal Democrats. You might conclude that the electorate is consciously assembling behind the candidates most likely to ensure that a Conservative is not returned. Clearly when it comes to by-elections that is exactly what it is they are doing, although you must take account of the number of Tories who simply stay at home. Perhaps, it is now suggested, voters will act in an equally sophisticated manner in a great many parts of the country in future general elections. We need not make too much of this. The chances are that some will, but not many. The phenomenon may spread, but common sense suggests that the overall result will only be of significance if there is an extremely tight election, with the formation of the next cabinet turning out to depend on two or three seats.

A third overriding rule is that when all the learned discourse is over, and all the fine points of politics have been worked through, people tend to vote for the government if they feel optimistic about their economic prospects and against it if they do not. Politicians and commentators may spend endless hours debating whether this or that policy will go down well, but in the end it is the wallet that decides, every time. This should worry the Tories. It may be impossible for Mr John Major, the chancellor of the exchequer, to conjure up a sufficiency of the famous "feel good factor" early enough, but we cannot be sure either way. You could argue, as hopeful Conservatives do, that he has up to 20 months in which to pull it off – since June 1992 is the last possible election month – or, as senior Labour strategists do, you could cross out every week that passes with the comment that that is one less available for the turnaround. There are extraneous factors. If the government panics and cuts taxes next April, it may sink sterling and therefore itself. A lot depends upon whether there is an international trend towards sharply lower interest rates during 1991.

Those old saws have been reliable guides until now; there is no reason to believe that they will cease to be reliable next year. Yet while the Eastbourne result does not alter the fundamental realities of British political arithmetic, it might indicate how change could come at the margin. If Mr Major fails, Labour will be in; if he succeeds, Mrs Thatcher will have her triumph. But if the chancellor is only moderately successful at manipulating the economy, the outcome will be decided at that margin. It only is on this assumption that analyses of the popularity of Thatcherism have any psephologically useful meaning. As matters stand, such an analysis is bad news for the Conservatives. They are more vulnerable than at any time since 1979. They are deeply unpopular.

The list of reasons for this unpopularity is now familiar. Inflation and high mortgage rates come first; the one-point cut in interest rates a fortnight ago has not yet had time to work through to actual mortgage payments. Those are Mr Major's province, as we have seen. Next on the list comes the poll tax: if everything else is finely balanced it could sink the Tories. Next come education, the national health service, the environment, and the state of the roads. There is a strong link between all of these. One way or another they are uniquely Mrs Thatcher's province. Exit polls in Eastbourne, and opinion polls generally, show the government to be losing ground to Labour and the Liberal Democrats in nearly every one of these areas of policy. The Labour party will abolish the poll tax. It will not tinker with vouchers while the schools rot. It claims proprietorship over the NHS. It is on the green side of the Tories. It is not to be trusted with the roads, but it is better on buses and trains. The Liberal Democrats' policies are close to Labour's on most such issues.

Mrs Thatcher's instinct is to offer voters more of this unpalatable medicine. They might swallow further destruction of local government and the consumerisation of the social services if it is sweetened by good economic news, but if not they will gag even more at what the polls show conclusively they do not like. This is the problem for her admirers. There are plenty of areas ripe for further development of the market economy and sound budgetary principles – in rented and middle-class housing, transport and control of the money supply, to name but three – yet Thatcherism has little that is new to offer in any of them. The flukes of arithmetic and the quirks of British elections may yet save its eponymous heroine. The bookmakers have concluded, however, that the odds have turned against her. Stand by for Conservative panic.

# LETTERS

## Europe's farms and the threat of deregulation

*From Mr Brian Ahlberg.*

Sir, William Dullforce's argument ("Juggling with the tricks of the trade," October 12) that the interests of "farmers supplying a mere 3.1 per cent of the European Community's gross domestic product (GDP)" are endangering the Uruguay Round of the General Agreement on Tariffs and Trade (Gatt) reinforces serious misconceptions.

I am sure that farmers and their work play a more important role in the European economy and society than is indicated by the figure. In the US, where there are only a fifth as many farmers as in Europe, they still equal transportation, steel and auto-workers combined. It is normally estimated that agriculture accounts for about 16 per cent of US GDP.

Beyond farmers' interests however, what would happen with deregulation of Europe's agricultural economy, which is the Bush administration's demand? The effects are certainly recognised by those who support it here. A New York Times editorial (July 12) scolded European leaders for not facing "the fact that real reform would cost millions of European farmers their jobs". And the Wall Street Journal of the same day complained of "all this talk about how their farmers are the Continent's social fabric".

Their vision for Europe's rural social structure and environment is the same that the Reagan and Bush administrations have imposed on rural America: depopulation, economic concentration, erosion and groundwater pollution.

Moreover, if European negotiators follow Dullforce's analysis, they might be inclined to sacrifice farmers to "larger" continental business interests. But this would be more likely to doom than save the Uruguay Round. Already farm-state legislators in Congress are joining those representing textile, environmental and other interests to threaten the administration's "fast-track" negotiating authority for Gatt.

Farmers in the US oppose the Bush proposal on agriculture. If Europe caves in, Gatt will lose support in Congress where its prospects are already cloudy.

Brian Ahlberg,
*National Family Farm Coalition,*
*80 F Street, NW,*
*Washington DC*

## Choosing a vital public service

*From Chief Inspector C. Nicholl.*

Sir, Your otherwise excellent Career Choice Survey was marred by Tim Burt's article on the police service that quite clearly sought to highlight controversy rather than opportunity.

Not only that, but as one of the interviewees, I was staggered by Mr Burt's attribution to me of remarks on subjects which were not even broached. For example, at no time did we discuss the West Midlands Crime Squad. Nor would the reader ever divine the fact that we discussed public confidence in terms of the great efforts being made by the police to improve the quality of service to the public.

Nobody – particularly me – would ever claim that the route to the top in the police service is an easy one for a graduate or a woman. But it is a vital public service offering great rewards for those with the right talent and determination.

I find it remarkably disappointing that a newspaper whose single overriding quality is objective reporting should produce such a one-sided presentation. Mr Burt could not even get my then rank right.

Having read the other Career Choice articles, I can find very few with a similar weight of negative aspects – except those dealing with some other public services.

It was very interesting to note that the journalism article made no mention of Calcutt, or the controversial coverage of Hillsborough, or the debate on bias in broadcasting, or the fact that the Financial Times was the only national newspaper not to appoint an ombudsman.

But then, perhaps you should ask a police officer, or a civil servant, to write that piece next time.

Caroline Nicholl,
*New Scotland Yard,*
*Broadway, SW1*

## An opportunity to curb the spread of nuclear weapons

*From Mr David Lowry.*

Sir, Your editorial comment ("The spread of nuclear weapons," October 12) in some ways misrepresents the philosophy and purpose of the nuclear non-proliferation treaty (NPT).

As you note, article VI requires all parties "to pursue negotiations in good faith ... to nuclear disarmament and on a treaty on general and complete disarmament". Thus the philosophy of the NPT is not that "nuclear weapons are a danger to mankind and should only be retained in the hands of a few powers" but that nuclear weapons are a danger to mankind and should be abolished. The UK government has for a long time ignored this basic contradiction inherent in the NPT.

You conclude, "Britain and the US ... should move to conclude a comprehensive test ban treaty (CTBT) with the other nuclear powers as soon as possible."

The first opportunity to conclude a CTBT will be at the partial test ban treaty (PTBT) amendment conference in New York in January next year. This conference has been called for by over a third of the states party to the PTBT explicitly for this purpose. Amending the PTBT has the advantage that the testing limitations would apply to the 117 existing parties to the treaty, including Argentina, Brazil, India, Pakistan and South Africa (near nuclear weapons states with large nuclear infrastructures), and Israel (a *de facto* nuclear weapons state). These are all currently outside the international non-proliferation regime and the NPT.

A CTBT would not result in the removal of a single nuclear weapon from the arsenals of the nuclear weapons states. It would, however, freeze the technological level of nuclear weapons at their current level. The absence of France and China from these arrangements need not be a major impediment. These states have already produced advanced nuclear weapons. With the end of the arms race, further testing to produce new improved nuclear weapons would be costly and lack a rationale.

Article VI was written in recognition of the fact that it is unacceptable to the majority of states party to the NPT that it should function solely as a guarantor of exclusivity of membership of the nuclear club. A CTBT would lay the groundwork for extension of the NPT in 1995, for expansion of the membership of the NPT and for the realisation of article VI.

However, the amendment conference is unlikely to produce a CTBT. The US has tested three times since the NPT review conference and the UK and the Soviet Union have tests planned. Any of these three states could veto the amendment and rumours are circulating that the US intends to walk out on the first day of the conference.

David Lowry,
*director,*
*European Proliferation Information Centre,*
*258, Pentonville Road, N1*

## The lure of the duty-free shop

*From Mr Stan Maiden.*

Sir, In your recent European Duty-Free Survey (October 8) David Churchill questions whether duty-free shoppers would really care if duty-free shopping between European Community states were curtailed. He quotes a recent Harris Research Survey as saying "most duty-free shoppers only bought goods because they were bored".

Although it is fair to say that this is the clear message to be drawn from Harris's own press release, the truth is somewhat different.

The respondents were not asked why they made duty-free purchases. Instead they were given a series of statements with which they could agree or disagree. One of them was "duty-free shopping relieves boredom", to which 70 per cent agreed. This is hardly surprising since almost any action relieves boredom.

The same survey also shows that 79 per cent of respondents found duty-free shopping to be cheaper than ordinary shopping. Perhaps this might just explain the popularity of duty-free shopping and make travellers care about the threat to its continuance.

Stan Maiden,
*director, development planning and research,*
*BAA Consultancy,*
*Masefield House,*
*Gatwick Airport, Sussex*

FINANCIAL TIMES
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MALAYSIAN GENERAL ELECTION

# Mahathir unlikely to win two-thirds majority

By Lim Siong Hoon in Kuala Lumpur

DR MAHATHIR Mohamad, the Malaysian prime minister, appeared last night to be headed for one of the most severe political setbacks of his 10-year rule, according to early results declared in a bitterly fought general election.

Although he looked set to retain power for a third term, indications were that he might be able to secure only a simple majority in parliament, not the two-thirds he had hoped for and until now enjoyed.

At the latest count available, his National Front coalition of nine parties had won 52 of the 87 seats declared, with 93 still to be announced.

Any parliamentary majority below two thirds would prevent him pushing though changes to the country's constitution.

Among the most serious early losses were in Kelantan state where Parti Islam, a Moslem fundamentalist party, was consolidating its control. In Sabah, the state's ruling Parti Bersatu Sabah – which defected from Dr Mahathir's National Front coalition to an opposition alliance during the 10-day campaign – won all the 14 seats it contested.

Dr Mahathir's opponents, a broad-based alliance of Malay Moslems and Chinese headed by Mr Tengku Razaleigh Hamzah, a former trade and industry minister, had begun the campaign hoping merely to deny the National Front its two-thirds majority rule.

The PBS defection raised their aspirations of capturing power.

During the campaign Dr Mahathir's United Malays National Organisation (Umno), the coalition's most powerful party, attacked his Moslem opponents for siding with Christians, in particular Mr Joseph Pairin Kitingan, the Sabah chief minister. Umno alleged that the opposition alliance would serve the interests of religious extremists.

Analysts described the short campaign since the election date was announced on October 5 as one of the dirtiest in Malaysia. Candidates made use of volatile religious issues and threats of retaliation.

Dr Mahathir has said he will continue to govern even with a simple majority, and has vowed to continue with his economic policies, including privatisation.

During the campaigning, criticism against his government were centred on those policies which his opponents say were designed to enrich Umno members, alleging corruption within his party.

Part of the privatisation programme, allowing private road operators to levy tolls, this summer led to clashes between protesters and police near the capital Kuala Lumpur.

Dr Mahathir went into the election with the manifesto of "peace, stability and prosperity," expecting to benefit from three years of healthy economic growth and relatively low inflation.

Mr Lim Chong Eu, the chief minister of Penang, lost his Padang Kota seat although Umno strengthened its position in that state. "Most people wish the prevailing peace and harmony brought about by the National Front government to continue," Dr Mahathir said.

About 7.9m Malaysians were eligible to vote. Voting is not compulsory in this nation of 17.8m, but long lines of people waited for polling stations to open on Sunday.

"I feel this time people are coming early to vote. Maybe it is because... it will rain in the afternoon and evening," said Muthu Thamby, 75, who has voted in Malaysia's seven previous elections since independence from Britain in 1957.

Mahathir Mohamad casts his vote in yesterday's elections

# Chamoun murders hurt Syrian credibility

By Lara Marlowe in Beirut

THE BRUTAL killing of Lebanese Christian leader Dany Chamoun, his wife and two young sons in east Beirut yesterday has come as a blow to the credibility of President Elias Hrawi and his Syrian allies who now control the Baabda suburb where the murders took place.

It showed that leaders who renounce power through militias – as Mr Chamoun had for the past decade – are ultimately defenceless against their armed opponents. And it marked the end of another of Lebanon's political dynasties.

At a time when President Hrawi is promising to reunify Beirut and disband the militias, the assassination of Mr Chamoun – one of Gen Michel Aoun's staunchest allies in his wars against the Syrians, Mr Hrawi and the Maronite Phalange militia – has terrified the residents of Gen Aoun's former enclave.

"Dany Chamoun was rich and powerful," one said yesterday. "If they can just go in and shoot him, then none of us is safe." Whoever despatched the five gunmen who killed Mr Chamoun – and, as usual in

Dany Chamoun: powerful

Lebanon, there is no shortage of suspects – the 56-year-old politician's associates yesterday held responsible the thousands of Syrian and Lebanese troops who patrol the area.

Hopes for peace after the October 13 assault on Gen Aoun's enclave were marred by the discovery of the corpses of soldiers loyal to the general, apparently murdered after surrender, the reported massacre of 14 civilians in the village of Bsous and looting in the Metn hills. More than 700 people are now thought to have died in the battle to oust Gen Aoun.

Like his late father, President Camille Chamoun, Dany Chamoun profoundly distrusted Syria. Yet he expressed "surprise" that Gen Aoun fled the former presidential palace at Baabda without consulting him and shortly before his death declared willingness to work with the Hrawi government.

Mr Chamoun, his German-Lebanese wife, Ingrid, and their sons Tarek and Julian, aged seven and five, were shot at 6 a.m. in their fifth-floor apartment at Baabda. The couple's 11-month-old daughter, Tamara, survived.

The killings were reminiscent of the 1978 slaughter of Mr Tony Frangieh and his family in Zghorta. Mr Frangieh's father, former President Suleiman Frangieh, has always blamed Mr Samir Geagea and the Phalange militia for the murders.

Dany Chamoun disbanded his own "Tigers" militia after a war with the Phalange in 1980. If yesterday's murders were carried out by the Phalange to eliminate Mr Chamoun as a contender for future leadership of the Christians and punish him for having supported Gen Aoun, the Syrians may retaliate against Mr Geagea for discrediting their new role in East Beirut.

Even before Mr Chamoun's death, many residents of Beirut had predicted that the Maronite militia would not willingly give up its territory and that the Syrians would fight them next.

Yet the murder could also serve Syria's interest: as a lesson to Gen Aoun – who is still sheltering in the French ambassador's residence in Mar Takla – and as an example of what happens to those who ally themselves with Israel.

With Mr Chamoun's death, the feudal leadership of the Frangiehs, Gemayels, Chamouns and Jumblatts draws nearer to a close.

Mr Chamoun's old friend Walid Jumblatt, the Druze leader, is now the only remaining hereditary leader in Lebanon.

# Setback for Polly Peck rescue bid

Continued from Page 1

creditors through the standstill period, the director said.

The government in northern Cyprus, however, does not want to see the local economy drained to bail out the company's international creditors, especially as the cash alone would not necessarily guarantee Polly Peck's survival.

Mr Asil Nadir, Polly Peck's chairman and chief executive, flew to Cyprus at the weekend to try to persuade the authorities to change their minds. The company's board is next expected to meet by Wednesday at the latest.

Polly Peck has more than £1bn in outstanding borrowings and must come up with £200m in cash before the end of the year.

Bank creditors agreed on October 12 to extend a standstill on repayments until November 9, to allow Coopers to make a report, providing money came in from Cyprus in the meantime.

British Land was not available for comment yesterday. Its concern is believed to reflect the fact that commercial paper is issued for a fixed term and, if not rolled over (renewed), ceases to pay interest after it falls due.

It wants Polly Peck and its bank creditors to agree to treat commercial paper like loans. Polly Peck said it was willing to do so. Commercial paper holders are represented on the creditors' 10-member steering committee by Legal & General, the insurance company.

British Land's writ is not expected to be heard for more than a week.

# Italians and French compete for British toll motorway contract

By Andrew Taylor, Construction Correspondent, in London

ITALSTAT of Italy, Europe's biggest toll motorway operator, and two of France's biggest toll road companies are among the members of three consortia which today will submit bids to build Britain's first privately-financed motorway.

Tenders to build the motorway, a northern relief road which will run around parts of Birmingham, in central England, must be submitted to the UK Transport Department by noon today.

The motorway, more than 25 miles long, is expected to cost between £200m and £300m ($390m and $585m). The total cost, including finance charges, is expected to be about £500m.

Each of the consortia bidding contains a continental European toll road operator because British companies have little or no experience of managing toll motorways, which are widely used in France and Italy. The three consortia are:

- A joint venture between Trafalgar House, the British construction, property, shipping and hotels group, currently building a privately-financed toll road bridge across the River Thames at Dartford, and Italstat, which manages about 60 per cent of Italy's 3,750 miles of toll motorways.
- A partnership between Tarmac, Britain's biggest construction and building materials group and Transroute, the large French toll road operator.
- A consortium led by Manufacturers Hanover, the US bank, which includes Cofiroute another large French toll road company. It also contains four British contractors: Robert M. Douglas, Alfred McAlpine, A. Monk and A. F. Budge; and three French contractors: Sogea, Jean Lefebvre and G. T. M. International.

The Birmingham relief road is one of several toll motorways and river crossings identified by the UK government as possible candidates for private investment. Other schemes include a new motorway between Birmingham and Manchester for which the government has sought preliminary bids.

The reaction by UK companies to some of these schemes has been lukewarm and the relief road is regarded by the companies as a test of the government's commitment to private financing for roads.

The government is expected to announce its choice of developer next spring. A bill would then have to be passed by Parliament before construction could start at the end of 1993.

The road planned to pass through mostly agricultural land, is expected to be completed by 1997. It will form part of an orbital road around Birmingham.

# Freedom pledge for some UK hostages

Continued from Page 1

and what he wants to see is a stable order in the Middle East as a whole," Mr Heath said. "I don't quite frankly believe that enough is being done on the diplomatic front," he added.

But Mr Douglas Hurd, the British foreign secretary, warned again yesterday that offering any concession to President Saddam in return for his withdrawal from Kuwait would be "very dangerous for the future."

It was, he said, very important that the international community held firmly to the United Nations position that Iraq must withdraw unconditionally from Kuwait, that the legitimate government must be restored, and that all the hostages must be released.

"It's actually hard to imagine a face-saving device which didn't give Saddam Hussein the power to go back to Baghdad and using all his propaganda machines, saying 'Well, after all I've won. I've had to withdraw from the Iranian war without success. I've had to withdraw from Kuwait, but look I've got this'," Mr Hurd said.

Both the foreign secretary and Mrs Thatcher held meetings at the weekend with Mr Yevgeny Primakov, the emissary from President Mikhail Gorbachev who recently visited the Gulf.

Downing Street said that Mr Primakov had told Mrs Thatcher that he thought it was better to try to avoid war if possible by political means, without making concessions.

The prime minister again made it clear there was no question of any deal to save Saddam Hussein's face. He had been the aggressor and the peaceful settlement could only be based on his withdrawing his troops from Kuwait.

# Tory MPs hope for better times after defeat

By Alison Smith in London

BRITAIN'S troubled Conservative MPs will close ranks this week in an effort to reduce the damage done by a surprise by-election defeat last week.

Despite a dispirited mood among backbenchers, MPs believe that their best way through the difficult time immediately ahead is to keep their heads down and hope for a fresh impetus when the new parliamentary session starts early next month.

The Conservatives lost one of their safest parliamentary seats at Eastbourne, on the south coast of England, to the Liberal Democrats, the third party in British politics, Labour being the official opposition.

The election was caused by the IRA murder in July of Mr Ian Gow and saw a Conservative majority of 17,000 transformed into one of 4,500 for the Liberal Democrats.

The MPs are also concerned that Tuesday's debate on Britain's entry into the exchange rate mechanism (ERM) of the European monetary system (EMS) will again highlight a rift within the party on Europe.

MPs emphasise that the vast bulk of the party agrees with the government's stance, but as many as 20 or 25 backbenchers could vote against the government motion.

Labour will use the debate to try to expose the underlying concern among some Conservatives about the circumstances and rate at which Britain has joined the ERM.

There are fears that the acrimony about the role of the Conservatives' London central office in the Eastbourne campaign could spill over into two further by-elections.

Treasury chief predicts easier cure for inflation, Page 10

# Compromise on US tax rates

Continued from Page 1

larger only because Republican candidates were all attacking the tax increase package.

Mr Darman conceded that the package would have to pass without Mr Gingrich and at least 40 of his conservative Republican allies.

Any budget will have to rely on the votes of a big majority of House Democrats and on bipartisan support in the Senate.

The next deadline is Wednesday night when the stopgap legislation keeping US government operations going expires.

Congressional leaders are keen to tie up the agreement by the end of this week ahead of the November 6 election.

However, a further clash looks certain between Mr Bush and congressional Democrats over a civil rights bill which the White House has threatened to veto.

THE LEX COLUMN

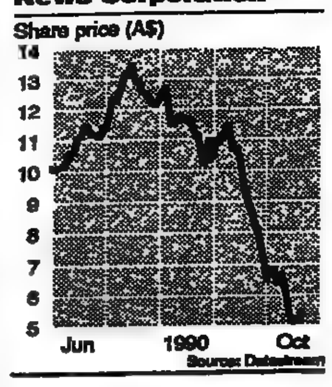
# High noon for News Corp

News Corporation has always been one of those companies which financed its growth via debt rather than equity, and it is now paying the price. Over the past eight years its borrowings have risen from A$275m to A$10.4bn, its assets have jumped from A$1bn to A$26bn, and on some calculations its annual interest charge of A$945m is not covered by operational cash flow. To add insult to injury, News Corp's stock market capitalisation of A$1.5bn is little more than half the size of Maxwell Communications Corporation, although it is three times as big a group.

The immediate problem is that News Corp needs to roll over A$2.8bn of short-term borrowings, repay at least $1.1bn of term lending and find another A$1.4bn for capital investment over the next 12 months. Several of News Corp's loyal bankers, most notably Citicorp and Midland, are under considerable financial pressure themselves – hardly an ideal environment for an ambitious media magnate to come begging for more money. In better times, when the price of media assets were being bid up, this sort of refinancing would have presented little problem for News Corp. It has plenty of quality assets and it has always managed to sell them at a handsome premium to satisfy its bankers.

However, times have changed dramatically and the next few months will pose a severe test for both News Corp and its bankers. A number of issues need to be answered at tomorrow's annual meeting. The surprisingly large revaluation of mastheads needs some explanation, especially given the absence of recent comparable market transactions. The group's plans to refinance itself are not going to be solved by the proposed issue of non-voting shares. Finally, some combination of asset sales and capital spending cutbacks seems urgent, if confidence in News Corp's shares is to be restored.

News Corporation




## PIBS

Building societies cannot be criticised for trying to wriggle around the constraints of mutual status. Abbey National persuaded its members and has prospered since becoming a bank; the remaining societies have so far pursued other openings. If the proposed capital raising idea of the Permanent Interest Bearing Share (PIBS) takes off, Abbey may see out the nineties in splendid isolation.

PIBS are not unlike the perpetual floating-rate notes which flourished on the Eurobond market and then bombed in 1986-7 when investors realised that if liquidity dried up they would be loft holding paper forever. The PIBS will pay *no dividend*; worse, they are effectively sub-subordinated debt, in that holders rank below the lowliest depositors at the bottom of the creditors' pile. True, the shares are tradeable and should pay a generous premium over prevailing interest rates, possibly as high as 2 per cent. Unfortunately, the premium remains at the discretion of the issuer.

Therein lies the essential catch of the structure. Investors benefit from a high rate of interest but they run the risk of forfeiting their yield or their entire investment in the event of a financial crisis. All this means the likely buyers of PIBS are the few institutions which have the ability to quantify building society credit risk and tailor their portfolios to include some quasi-subordinate but easily traded debt. That would introduce greater credit differentiation than currently exists in the subordinated debt market and thereby benefit the larger societies. Private investors would be wise to resist the higher returns. One thing seems certain; any societies issuing PIBS will be declaring their enduring mutual status. How nice to have shareholders without accountability. Fortunately, PIBS are still on the drawing-board. They should stay there.

## FT-A sectors

Last week's proposed re-jigging of sectors in the London equity market – the demise of overseas traders and agencies, the creation of business services and media – is a useful reminder of some points of principle. For the investor, the chief analytical purpose of sectors is to group together companies which are likely to behave in roughly the same way in given economic or market conditions. Thus, an institution which has decided to buy UK equities may then choose to go overweight on banks or pharmaceuticals, the decision to buy Barclays or Glaxo then being of quite secondary importance.

The result of this top-down approach is a degree of convergence in valuations within sectors and the desire by some companies to be classifed in sectors which are more highly rated. But the majority of sectors are so diverse as to make little economic sense. The leisure sector includes a manufacturer of musical instruments and the proprietor of Hilton Hotels; the brewers include Grand Metropolitan, which is busy getting out of brewing altogether.

The sector principle is of practical importance to stockbrokers, who employ analysts to specialise in given industries. Even here, the conglomerate principle leads to absurdities. The tobacco analyst, for instance, is called upon to cover the biggest UK-based insurer, BAT. More generally, the creation of derivative instruments such as FT-SE futures leads to a polarisation between those investors who play the market as a whole and those who specialise in fundamental stock-picking. The passing of the overseas traders sector is a reminder of times past. Perhaps the sector concept is old-fashioned as well.

## Water shares

Does it matter that Thames Water's share price is 17 per cent higher than Severn Trent's? For the big institutional investors who trade in and out of individual water shares depending on the yield relatives, it is of no particular import. But for the managements of at least some of the water companies, anxious to prove their machismo, the absolute level of their shares is *regarded as a barometer of success* in establishing their business credentials. After all, they were launched at the same price a year ago.

In this respect, the 11 per cent underperformance of Severn Trent's shares, since it launched its bid for Caird last month, has not gone unnoticed. One easy way to repair the damage would be to bump up the interim dividend. Thames Water's shares have outperformed the sector by 5 per cent since it announced a bigger than expected dividend in June. Severn Trent should swallow its pride, and do the same, especially if it insists on going ahead with the Caird bid.



## WORLDWIDE WEATHER

| | | °C | °F |
|---|---|---|---|
| Ajaccio | S | 22 | 72 |
| Algiers | S | 26 | 79 |
| Amsterdam | S | 11 | 52 |
| Athens | S | 25 | 77 |
| Bahrain | S | 31 | 88 |
| Bangkok | F | [illegible] | [illegible] |
| Barcelona | S | 21 | 70 |
| Beirut | – | – | – |
| Belfast | F | 13 | 57 |
| Belgrade | R | 7 | 45 |
| Berlin | F | 8 | 46 |
| Biarritz | S | 17 | 63 |
| Bombay | S | 32 | 91 |
| Bordeaux | S | 17 | 64 |
| Boulogne | S | 15 | 59 |
| Brussels | S | 11 | 52 |
| Budapest | S | 12 | 55 |
| Buenos Aires | F | 23 | 75 |
| Cairo | F | 28 | 84 |
| Cape Town | S | 18 | 65 |
| Caracas | – | – | – |
| Casablanca | [illegible] | 21 | 70 |
| Chicago | [illegible] | 12 | 55 |
| Cologne | S | 12 | 54 |
| Copenhagen | S | 7 | 45 |
| Corfu | F | 22 | 72 |
| Dallas | C | 11 | 52 |
| Dublin | F | 13 | 57 |
| Dubrovnik | [illegible] | 20 | 68 |
| Edinburgh | C | 12 | 54 |
| Faro | C | 19 | 66 |
| Florence | C | 20 | 68 |
| Frankfurt | S | 12 | 54 |
| Geneva | F | 16 | [illegible] |
| Gibraltar | [illegible] | 17 | 64 |
| Glasgow | C | 12 | 55 |
| Helsinki | S | [illegible] | 36 |
| Hong Kong | S | 30 | 86 |
| Innsbruck | S | 15 | 59 |
| Inverness | F | 12 | 55 |
| Islamabad | F | 25 | 77 |
| Istanbul | S | 22 | 73 |
| Jakarta | F | 35 | 95 |
| Jersey | [illegible] | 13 | 57 |
| Johannesburg | S | 21 | 70 |
| [illegible] | [illegible] | [illegible] | [illegible] |
| Lisbon | S | 17 | 63 |
| London | C | 13 | 57 |
| Los Angeles | S | 17 | 63 |
| Luxembourg | F | 11 | 52 |
| Madeira | S | 22 | 72 |
| Madrid | F | 15 | 59 |
| Majorca | F | 22 | 72 |
| Malaga | R | 17 | 63 |
| Malta | S | 25 | 77 |
| Manchester | C | 12 | 55 |
| Manila | C | 27 | 81 |
| Melbourne | [illegible] | 12 | 54 |
| Mexico City | [illegible] | 21 | 70 |
| Miami | F | 28 | [illegible] |
| Milan | S | [illegible] | [illegible] |
| Montreal | S | 1 | 34 |
| Moscow | [illegible] | 3 | [illegible] |
| Munich | C | 8 | 46 |
| Nairobi | S | 25 | 77 |
| Naples | F | [illegible] | 72 |
| Nassau | C | 32 | 90 |
| New Delhi | S | 37 | [illegible] |
| New York | S | 11 | 52 |
| Nice | S | [illegible] | 70 |
| Nicosia | S | 27 | 81 |
| Oporto | C | [illegible] | 81 |
| Oslo | S | 6 | 43 |
| Paris | F | 16 | 61 |
| Peking | S | 21 | 70 |
| Prague | F | 7 | 45 |
| Reykjavik | R | 8 | 46 |
| Rhodes | S | 25 | 77 |
| Rio de Janeiro | C | 30 | 86 |
| Rome | S | 21 | 70 |
| Salzburg | C | [illegible] | [illegible] |
| San Francisco | S | 19 | [illegible] |
| Seoul | F | 22 | 73 |
| Singapore | R | 26 | 79 |
| Stockholm | S | 5 | 41 |
| Strasbourg | F | 13 | 57 |
| Sydney | S | 21 | 70 |
| Taipei | – | – | – |
| Tangier | F | [illegible] | [illegible] |
| Tel Aviv | S | 28 | 84 |
| Tenerife | C | 22 | 72 |
| Tokyo | S | 21 | 70 |
| Toronto | S | [illegible] | [illegible] |
| Tunis | S | [illegible] | [illegible] |
| Valencia | F | [illegible] | [illegible] |
| Venice | F | [illegible] | [illegible] |
| Vienna | S | [illegible] | [illegible] |
| Warsaw | C | 6 | 43 |
| Washington | F | [illegible] | [illegible] |
| Zurich | C | 12 | 54 |

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

FINANCIAL TIMES
# COMPANIES & MARKETS
Monday October 22 1990



## INSIDE

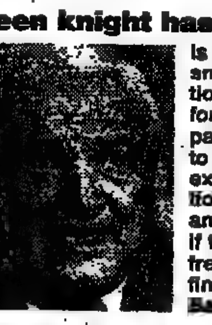
### Texas Instruments records $7m loss

The third quarter brought bad news for Texas Instruments, one of the leading US semiconductor and electronics manufacturers. A slump in memory chip prices combined with heavy costs of new plant construction drove the company into a third quarter net loss of $7m. The latest results were also hit by the temporary disruption of business at TI's semiconductor operation in the Philippines following an earthquake in July. Page 21

### Interest rises on Ecu

Sterling's entry to the European exchange rate mechanism in theory helps to stabilise the Ecu basket of currencies. So interest in Ecu-denominated securities is growing. The UK is likely to issue Ecu gilts soon, while the French futures market, the Matif, has just launched a long-awaited Ecu bond futures contract. Simon London reports. Page 23

### Green knight has his day



Is Sir James Goldsmith's declared intention to forsake business for environmental campaigning a sign of things to come? John Plender explores the implications of Sir James's announcement and asks if the era of gung-ho free-marketeering is finally at an end. Back Page

### Barclays reviews operations

There's big changes ahead for Barclays. The biggest UK clearing bank is undertaking a wide-ranging review of how it organises its business for the next decade, but has scotched reports that it would split domestic and international operations into separate entities. Sara Webb reports. Page 20

### Insurers feel the pinch

The costs of insurance claims in the UK pale into insignificance when compared to the US, where the ultimate losses to insurers could amount to $170bn. Even so, employers' liability has been a "disastrous account" for UK insurers. Richard Lapper reports on a sector squeezed between fierce competition and rising claims. Page 20

### Market Statistics



### Companies in this section



# Murdoch to press share issue plan

By Kevin Brown in Sydney

RUPERT Murdoch, whose News Corporation is facing mounting debt problems, is going ahead with a controversial proposal to issue non-voting shares.

He will ask shareholders at the group's annual meeting in Adelaide tomorrow to agree to a three-tier share structure which would protect his controlling interest but could lead to the group delisting from the Australian Stock Exchange (ASX). Mr Murdoch's proposal comes at a time of mounting concern in the financial markets about News Corp's ability to roll over its A$2.8bn ($2.2bn) short-term debt commitments, and raise extra funds to finance its large capital investment programme.

News Corp's shares closed at A$5.48 on Friday – above the 1990 low of A$4.85 – but well below the high for the year of A$14.85. Meanwhile, the volume of News Corp's American depository receipts – which have been sold short in the expectation that they would fall further – jumped by 64 per cent to 4.8m according to the New York Stock Exchange's latest monthly survey of short interest.

Mr Murdoch's decision to break with tradition by briefing analysts after tomorrow's annual meeting is being seen as an attempt to bolster stockmarket confidence. Although most Australian brokerage houses argue that News Corp's shares are a buy, they are concerned that a highly-leveraged company like News Corp will be hurt by the general cuts in global bank lending.

Morgan Stanley, the US investment bank, which categorises News Corp stock as a "weak hold", says that "the banks must be aware of the long-term value of News Corp assets and that pulling the plug on News Corp in the current economic environment would mean getting very unsatisfactory prices for those assets". It says that it is confident that they will do their utmost to assist News Corp.

Meanwhile, a resolution will be put to the annual meeting authorising News Corp to transfer its main listing to London or New York if the ASX refuses to back down from its opposition to limited voting and non-voting shares. News Corp wants the freedom to issue non-voting and limited voting shares to raise capital without diluting the controlling stake held by the Murdoch family. This has been largely responsible for the company's "generally acknowledged success of the last three decades or more," and is crucial for further growth, the meeting agenda says.

Lex, Page 18

# UK bank leads Continental through uncharted territory

## The German tyre group is using Morgan Grenfell's expertise to fend off Pirelli, reports Andrew Fisher

HORST Urban, the combative 54-year-old chief executive of the Continental tyre company is enjoying a few days' holiday in the Bavarian woods. He needs the rest. When he returns this week to Hanover, where Continental is based, he will be back in the thick of defending the world's fourth-biggest tyremaker from an Italian assault at a time when the industry is increasingly under pressure.

Yet the real defensive work is being done by Morgan Grenfell, one of Britain's top merchant banks. Bought a year ago by Deutsche Bank for almost £1bn ($1.95bn) and later put in charge of the bank's mergers and acquisitions activities, it has been given a chance to show its mettle in the unfamiliar German takeover scene. The affair is undoubtedly a test for John Craven, the head of Morgan Grenfell and now on Deutsche's board.

Opposing the British merchant bank is Merrill Lynch, the big US investment house and owner of a 1 per cent stake in Pirelli, which it is advising. The Italian tyre group has assembled a group of friendly shareholders to back its approach to Continental.

At present, the contest is wide open, with both sets of advisers feeling their way in a totally new takeover environment. Germany has none of the takeover rules and disclosure requirements which govern the course of bids in the US or UK.

It is this lack of regulations and practice which has led the companies to slip up. Pirelli upset Continental by the suddenness of its approach, which the Italian company said was meant to be friendly. Continental first put out a press release which made it look as if it was the initiator and not Pirelli.

Since Pirelli's approach, Continental has forcefully and publicly rejected the terms which Pirelli had not revealed. Before this, Mr Ulrich Weiss, a management board member of Deutsche Bank and head of Continental's supervisory board, had stressed that the bank's position was neutral. Mr Weiss is in charge of the Italian activities of Deutsche, which also owns a 5 per cent stake in Continental. He has subsequently taken a vow of silence.

Four weeks after Pirelli, number five in the tyre league, launched its merger proposal, the manoeuvring continues. After Continental called Pirelli's offer hostile, the Italian group said it was not a bid at all, but a basis for discussion. It was certainly not hostile, Pirelli said. Continental said yes, it was, and no, it would still not accept the terms.

So when is a bid not a bid? And when is it hostile? This is not just semantics – though to anyone used to the more direct, and often verbally brutal, tactics in US or UK takeover battles, a war of words over the definition of a bid might seem bizarre.

Pirelli did not make an actual share offer. But the terms of its proposal, under which Continental would buy Pirelli's tyre activities at what the former considers an inflated price, constituted an effort to gain control. The Italian company would end up with most of the combined operation.

Whatever the outcome, it is clear that a break has been made with previous German business custom. Hostile takeovers are not the order of the day in Germany; there is no takeover code, thus, no level of share purchases which would trigger a full offer with a time limit. Nor do share stakes have to be disclosed until they reach 25 per cent. Moreover, shares are bearer units, so Continental and Morgan Grenfell cannot find out directly who Pirelli's backers might be.

In Germany, mergers are mostly worked out behind closed doors by companies and their banks. Pirelli says it has 5 per cent of Continental's shares and is supported by other shareholders to a level of more than 50 per cent. But because the German company has a 5 per cent voting restriction, Pirelli cannot make a straightforward bid.

Pirelli hopes to try and keep things friendly. It would only as a last resort call an extraordinary general meeting to try to use its voting power for control. For its part, Continental points to the layered structure of Pirelli's ownership and the difficulties it would have in bidding, if it wished.

Continental and Morgan Grenfell are also not convinced that Pirelli has the firm support of more than half of the German company's shares.

"The whole thing is extraordinary," says Mr Stephen Reitman, motor industry analyst with UK stockbrokers Phillips & Drew. "The way Pirelli went about it was bound to raise hackles."

It must also have come as somewhat of an embarrassment to Mr Weiss. He is not averse to some form of tie-up, but has said the best possible solution must be sought for Continental. When it rejected Pirelli's terms, he said in a written statement: "A merger of Continental with Pirelli opens up, next to problems and risks, considerable chances for both companies to strengthen their position in the contested tyre market." Thus, the talks should continue.

The next move is Pirelli's. Until it withdraws its proposal, Continental and its advisers will be unwilling to talk about a possible new solution.


Morgan Grenfell, headed by John Craven, is Continental's guiding light in an unfamiliar takeover environment

On the Pirelli side, however, there is some concern that Continental might be trying to assemble its own, possibly Japanese, shareholder support, though the German company has denied this. Moreover, Morgan Grenfell has enlisted US legal expertise to try to nail down the scope of any talks in advance.

The identity of the Pirelli associates has not been revealed, apart from Mediobanca, the Italian merchant bank, with 5 per cent. Since the price of Continental shares has come down from DM285 just before Pirelli made its offer to DM251 yesterday – valuing the company at DM2.2bn ($1.4bn) – the Italian company's backers may be getting restless.

Industrially, there are arguments for some form of link. Tyre profits have collapsed at all companies. Nor does Mr Urban expect much improvement in the short term. "I see a very difficult 1991 and a heavy veil over 1992." The German company's profits and dividend will be lower this year, though turnover is up.

Mr Urban, who has been committed to keeping Continental independent, accepts that there might be some arguments for a link with Pirelli. But he opposes its claim that synergies worth up to DM400m annually could be achieved after four years. He also insists that Continental could stay independent. "I see no danger that we can't survive alone."

Mr Urban asserts that Continental is financially stronger than Pirelli and that it should thus not be the junior partner.

The question now is whether a merger, or some looser form of association, is possible or desirable after the wrangling. It seems clear that only a friendly solution will work.

# Japanese banks face threat from Swiss franc bondholders

By Simon London in London

LEADING Japanese banks face substantial losses and an additional strain on their balance sheets next year if, as seems likely, holders of several billion dollars worth of Swiss franc convertible bonds take their option to redeem the bonds early.

The bonds were issued into the Swiss market in 1988 and 1989, when Tokyo share prices were at a peak. By incorporating a put option into the bonds, which allows the investor to redeem them early, the banks could borrow at negligible rates. For example, the two outstanding convertible issues from Fuji Bank which incorporate a put option carry coupons of ¼ per cent and no coupon at all.

However, since the bonds were issued, the banks' share prices have fallen to the point that the conversion rights are worthless and the put options will almost certainly be exercised. The banks' balance sheets are already under strain because the drop in the Japanese stockmarket has sharply reduced the value of their equity portfolios, part of which count towards their capital base.

Dai-Ichi Kangyo Bank (DKB), which faces early redemption of SFr1bn ($787m) of Swiss franc bonds in March and September next year, has the largest exposure. The biggest tranche of DKB bonds offer conversion at a share price of Y3,251.8, against Friday's closing share price in Tokyo of Y1,840.

The put option exercisable on 31 March 1991 offers investors the chance to redeem the bonds at 107 per cent of face value. So if the investors exercise the option, DKB will have to pay out about SFr65m in "supplemental interest" next year.

Other institutions vulnerable to the problem include Fuji Bank (SFr800m puttable next year), Bank of Tokyo (SFr500m), Sumitomo Bank (SFr350m), Tokai Bank (SFr300m) and Mitsubishi Bank (SFr200m).

As these institutions enter the autumn interim reporting season, analysts are waiting to see if accounting provisions are made. Several UK companies have made provisions against the "supplemental interest" due if similar out-of-the-money convertibles are put back to them from 1992 onwards. So far, the Japanese banks have remained tight-lipped about their intention.

However, in addition to the supplemental interest bill, the banks face also substantial foreign exchange losses.

## Economics Notebook: German interest rates squeeze

# Note of discord on unity day

*AT THE stately ceremony of speeches and symphonies celebrating German Unity on October 3 in Berlin, President Richard von Weizsäcker made an unusual descent into the monetary arena. In a barbed passage in his address on the consequences of unification, Mr von Weizsäcker said: "Unity will not be financed simply with high-yielding bonds."*

Mr von Weizsäcker's remark caused a flutter of irritation to pass across the broad features of Chancellor Helmut Kohl, sitting in the front row at the Berlin Philharmonia. It was widely interpreted as a veiled attack on the government's refusal to rule out tax increases to offset the burdens of unity.

The Bundesbank in Frankfurt, however, was also taken aback by the Weizsäcker aside. The opposition Social Democratic Party (SPD) has been mounting a campaign of protest about the rise in interest rates on the capital markets.

Floating mortgage credits for housing are now costing between 9 and 10 per cent (against the inflation rate of 3 per cent). Mr Oskar Lafontaine, the SPD candidate for the chancellorship December's general elections, is not the only person complaining that the interest rate squeeze is starting to depress real incomes.

The Bundesbank's rejoinder to Mr von Weizsäcker is to point out that "high-yielding bonds" are not a hindrance to carrying out unity; they are, in fact, a condition for the process to succeed. The message is not simply for home consumption. The Bundesbank's strategy of keeping interest rates firm, despite the growing fears of a US recession, is likely before too long to cause problems with Germany's partners in the European Monetary System, as well as in Washington.

*The Bundesbank recognises* that the current phase of turbulence associated with east Germany's adoption of the D-Mark and the market system will continue for about three years. During this period, public sector deficits will be inflated by the need to make large transfer payments to east Germany – both to shore up the social security system and to fund much-needed regeneration of infrastructure and industry.

To avoid extra demand feeding inflationary pressures, the Bundesbank is determined not to take its foot off the monetary brakes. Additionally, continued high German interest rates are seen by the central bank as a means of keeping the D-Mark firm, both within the EMS and against the dollar. By encouraging imports, the Bundesbank reasons that a strong D-Mark will dampen price increases and contribute to a welcome reduction in the German current account surplus.

Mr Hans Tietmeyer, the Bundesbank director responsible for international affairs, goes so far as to call the current account surplus the "reserve army" which Germany will use to make unity a success. There is an important implication for international bond markets, and for the White House. As German capital exports tail off, domestic savings resources will be re-directed *away from foreign securities*, towards east Germany.

West Germany's current account *last year* was a record DM104bn ($69bn) in the black. Already in the first six months of the year, before monetary union between east and west Germany took effect on July 1, the current account surplus showed a fall of 20 per cent to DM45.7bn. This was, above all, a result of the buoyant west German economy, on course for a 4 per cent rise in gross national product this year (against a probable 10 per cent fall in GNP east of the Elbe).

Statistics indicate a further decline. The current account surplus for east and west Germany combined was DM3.4bn in August. This was against DM6.8bn for west Germany alone in August last year. West Germany's high surplus has long put it on the receiving end of international criticism. Now that the run of record current account figures has at last come to an end, the Germans may find themselves again the brunt of foreign complaints.

**As world economic growth slows down, but German rates stay high, there could be a repeat of squabbling which last hindered transatlantic monetary relations in 1987**

As world economic growth slows down, but German interest rates stay high, there could be a repeat of the interest rate squabbling between Germany and Washington which last hindered transatlantic monetary relations in 1987.

Mr Karl Otto Pöhl, the president of the German Bundesbank, last week brought into play a new set of arguments on *the theme of* "Where does Europe end?"

Speaking at a conference in Bonn, Mr Pöhl seized on the breakdown of east-west barriers as yet another reason why the EC should not set firm target dates for entry into the so-far-undefined "Second Stage" of monetary union.

"We know now that Europe does not end at the Elbe – it does not even end at the Oder," was Mr Pohl's message. He points out that several central and east European countries are considering pegging their currencies to the D-Mark, or have already done so. Thus, Mr Pohl sees early moves on institutionalising Emu among the 12-member EC as creating unwarranted European monetary division.

Mr Pohl stresses that Austria, not a member of the European Monetary System, is the only country which has consistently kept its exchange rate pegged to the D-Mark.

Mr Pohl's words are likely to fall upon fertile soil. He and Mr Helmut Kohl can hardly be called kindred spirits. But one thing on which both men agree is that the geographical notion of "Europe" cannot be limited simply to the 12-member Community.

Kohl last week did agree to January 1 1994 as the date for the start of the so-called "stage two" of Emu. However as no one knows what "stage two" really means, this does not add up to much of a commitment.

Watch out, therefore, for the Chancellor to resort to the arguments about a wider Europe as another reason for slowing down the Emu negotiations which start in earnest in two months' time.

**David Marsh**

The Week Ahead, Page 14

# Lufthansa proposes new plan for Interflug

By Katharine Campbell in Frankfurt

LUFTHANSA, the 52 per cent state-owned German national airline, has come up with an alternative means of acquiring control of Interflug, the former east German carrier. It believes the new plan might not be opposed by federal cartel authorities in Berlin.

Mr Heinz Ruhnau, chief executive of Lufthansa, has suggested that the Bonn government give his company the contract to revitalise Interflug, according to an interview in the German Sunday newspaper, Welt am Sonntag.

He indicated that, after an independent valuation of Interflug enabled a price to be fixed, its assets could then be folded into Lufthansa. Bonn's payment would be in the form of Lufthansa shares.

The deal would give Interflug a good chance of becoming a competitive airline, Mr Ruhnau said.

Lufthansa yesterday explained that the cartel office's approval for the new plan was by no means assured, but that if the matter was deemed a case of "inheritance," the cartel authorities would not normally be involved. Since unification, Interflug is in effect completely owned by the Bonn government.

The spokesman added that the Interflug name would be kept and that it would operate as an independent entity within the Lufthansa group.

Earlier in the year, Lufthansa had announced its intention to buy a 26 per cent stake in Interflug, but the cartel office made clear it would block such a deal. Last Tuesday, Lufthansa withdrew its application.

# Barclays looks to restructure

By Sara Webb

BARCLAYS, the biggest of the UK clearing banks, is undertaking a *major review of how it* organises its business for the next decade, but has scotched reports that the bank would be split into two separate entities.

The group has hired McKinsey & Co, the management consultants, to advise it on how it might restructure its business to meet the rapid changes under way in the financial services industry. The various options open to the bank will be discussed at Barclays annual planning conference next week.

However, the bank stressed *yesterday that it has no plans to* reverse its decision of a few years ago and split the domestic and international operations into two separate entities.

In a strongly worded statement issued yesterday, Sir John Quinton, the chairman, said that the domestic and international banking operations would be "growing together" rather than separated in future.

"Barclays is not splitting into two banks so we are not selling off either one of them", *said Sir John.*

He added that Mr Andrew Buxton, who is currently group *managing* director, would not be moving to head Barclays' domestic operations "since he is, and will remain, in full operational control of the entire group."

Given the uncertainty over the future of several of the famous US money centre banks, which have been hit by bad loans and management upheavals, Barclays is anxious to play down the scale of the changes planned. Aside from the impact the speculation might have on staff morale, it is also very conscious of the *battering* its stock market image took after its record £921m rights issue in early 1988.

"Barclays is one of the strongest capitalised banks in the world and we have no intention to ask for further equity capital from our shareholders", Sir John said yesterday.

Despite persistent speculation that the bank could reduce its substantial discount to net assets by unbundling itself of various subsidiaries, sources close to the bank yesterday suggested that this was *not even being considered.*

# Decision on redemption of Polly Peck Dm bonds

By Stephen Fidler, Euromarkets Correspondent

HOLDERS of DM100m of Polly Peck International bonds issued in the German market have been called to a meeting next week to decide whether to call the bonds for early redemption.

The bonds were issued in early 1988 through Arab Banking Corporation-Daus & Co and mature in 1993. An ABC-Daus official said the meeting would probably be called for November 2; similar meetings are set for October 31 for the six Swiss franc bond issues.

Clauses in the documentation of most bonds issued in continental Europe include an accelerated repayments clause in the case of an "event of default" – in this case, the creditors' standstill agreed early this month.

There has been no delay in any payments due on any of the bonds. The ABC-Daus official expressed optimism that a call for early repayment could be avoided.

Separately, the Stock Exchange in London will allow dealings in Polly Peck traded options to reopen today ,but only for the liquidation of 4,735 outstanding contracts.

# Unilever expands in Venezuela

Unilever, the Anglo-Dutch food *and consumer products group,* is to enter the Venezuelan edible oils business with the purchase of Facegra, which with Jainsa, a soaps company owned by the same family, has combined annual sales of about £25m, writes Clay Harris.

*The acquisitions, for which* no price was announced, will more than double the size of Unilever's operations in Venezuela, where its Lever-Pond's subsidiary sells £15m of soaps, detergents, personal products, soups and teas.

# Increasing cost of employers' liability insurance

**Richard Lapper** on the new legislation and changing types of claims affecting the UK industry

A WARNING that Guardian Royal Exchange, the British composite insurer, is seriously under-reserved on its employers' liability business will concentrate minds in an insurance sector squeezed between fierce competition and rising claims.

Claims from victims of industrial accidents and diseases ranging from asbestosis to repetitive strain injury have been rising steadily through *the 1980s. Last week Mr Step*hen Bird, an insurance analyst with Smith New Court, suggested that GRE, the third biggest UK insurer of employers' liability business, needed to strengthen its reserves by between £60m and £90m, against future claims.

Employers' liability is long tail business in which claims sometimes take many years to arise. Mr Bird says that compared to other insurers in the sector, GRE has under-reserved for liabilities that will arise in future years.

*Claims costs pale into insig*nificance when compared to the US, where the ultimate losses to insurers could amount to $170bn. Even so in the UK employers' liability has been a "disastrous account" for insurers, says Mr Bird. Last year's claims of £425.9m (which included those arising from previous years but paid in 1989) compared to premium income of £228.1m. Further deterioration is on the cards in 1990 and 1991, when underwriting losses will rise to £285.8m *and £303.8m, according to Mr* Bird.

GRE is particularly heavily exposed. Although it is only the third biggest employers' liability insurer (with annual premiums of £55.2m last year) behind both Eagle Star and Iron Trades Insurance, outstanding claims account for a higher percentage of its worldwide premium income.

Over the sector as a whole claims have risen steadily through the 1980s from 61,900 in 1981 to 96,500 in 1989, with the total cost nearly tripling from £112.3m to £312.4m. According to Mr Clive Coates, finance director of Eagle Star, the market leader, workers are generally more likely to claim than they were ten years ago. "The workforce is better educated and better motivated and in general is becoming more claims aware," adds Mr Coates.

Trades unions have been more active in helping members to press for claims and a number of firms of solicitors are now actively touting for business. By improving legal *safety standards, new legisla*tion, such as the Control of Substances Hazardous to Health (COSHH) regulations, approved in 1988, and tough new rules on industrial deafness introduced in January, have made it easier for employees to win compensation.

Health screening and the development of new techniques in urine and blood analysis and in the testing of respiratory and nerve system functions mean that it is now easier to establish the link between a person's occupation *and subsequent ill-health.* Noise induced hearing loss, lung conditions like asbestosis and various cancers related to toxic chemicals or oils have all given rise to claims.

Mr Derek Howie, assistant liability manager at Eagle Star, says he is particularly worried by the growth in the number of occupational-related cancers. Medical evidence indicates that about 5 per cent of all cancers are due to occupational exposure, representing some 7,000 cases annually.

*At the same time, although* the heavy industries like coal mining and shipbuilding which previously generated the bulk of EL claims have continued to decline, new areas of occupational exposures have emerged. Tenosynovitis or repetitive strain injury, previously suffered by manual workers, has re-emerged as an industrial disease suffered by journalists, secretaries and other VDU operators. According to Mr Clive Munnings, assistant claims manager at GRE, the number of claims from RSI suf*ferers has increased five fold* over the past five years, even though claims related to computer keyboards are still relatively small. "RSI is beginning to take off," says Mr Munnings. "With tenosynovitis there is really no trade or profession *that is safe. A typist working* for a one man solicitor in a market town can be a victim.

Other areas of concern include the health effects associated with closed air circulation systems and other features of the office environment *such* as passive smoking, so-called "sick building syndrome". A recent ruling by the Social Security Commissioner could lead to passive smoking being considered a health hazard by insurers. The ruling allowed an office worker to take up disability benefit after exposure to her colleagues cigarette smoke forced her to give up work. "One of my great concerns about the future is that industrial disease claims from the office environment are likely to be a good deal more widespread," says Mr Coates.

*Moreover, according to Eagle* Star the cost of individual awards has also risen sharply, especially where there have been court awards. A court award of £45,000 to an employee of Midland Bank, who had RSI, compared to an average *out of court settlement* level for the same complaint of between £2,500 and £5,000, for example. The vast majority of employers' liability claims are settled without the matter going to court.

To make matters worse, new legislation which came into effect on September 1 will add to the sector's burdens. The Social Security Act (1989) allows the Department of Social Security to recoup in full, social security benefits paid to a person who receives compensation payments above £2,500.

Hitherto, insurers have been able to take credit for a portion of social security payments. The loss of the credit, combined with the extra expenses of administering the scheme, means that premiums ought to *rise by between 8 and 9 per* cent, says Mr Coates.

# Travel perks for Tunnel investors

By Sara Webb

*EUROTUNNEL* hopes to tempt small investors with a package of travel discounts and other perks when it goes ahead with its rights issue next month.

There will be a four-tiered range of perks for the small investor.

Shareholders will be entitled to the minimum travel discount with the Channel Tunnel if they invest £160, but in order to receive maximum benefits they will need to put up at least £5,000.

The banks are still deciding on the details of the perks on offer.

Final details of the £500m rights issue are due to be announced in the first half of November.

The perks will also be available to people who do not already own Eurotunnel shares but who ring up Eurotunnel's cheap share dealing service and buy shares in the market. Furthermore, investors will be able to nominate for their relatives or friends to receive the perks in their place.

The package of perks is intended to encourage investors to take part in Eurotunnel's rights issue. Eurotunnel believes that the shares' attractions may be greatly enhanced by the fact that they have been given the go-ahead to arrange a Personal Equity Plan (or PEP).

This would allow investors to place up to £6,000 worth of shares into a PEP and receive the income and capital gains from their shares tax-free.

## LAST WEEK'S CROSS-BORDER DEALS

| BIDDER/INVESTOR | TARGET | SECTOR | VALUE | COMMENT |
|---|---|---|---|---|
| Hanson (UK/US) | General Oriental Sec'rties (Cayman Islands)/Hornwood Barbados (Barbados) | Timber | £663m | Part of Hanson-Goldsmith-Rothschild |
| General Oriental Investments (Cayman Isl) | Newmont Mining (US) | Gold mining | £668m | gold-for-timber swap |
| St James Place Capital (UK) | Newmont Mining (US) | Gold mining | £97m | as above |
| Ferruzzi (Italy) | Globo Europa (Netherlands-based) | Television broadcasting | £363m | Ferruzzi takes 40% |
| Ishihara Sangyo (Japan) | SDS Enterprises (US) | Fungicide production | £153m | Sweden's Fermenta sells |
| Highland Distilleries (UK) | Orpar (France) | Spirits | £75.9m | Link à la Guinness/LVMH |
| Blenheim Exhibitions (UK) | National Exhibitions (US) | Trade exhibitions | to £7m | More US growth for Blenheim |
| Asahi Brews (Japan) | Elders IXL (Aust) | Brewing | £304m | As negotiates stake purchase |
| Balfour Beatty (UK)/ Fornara (Italy) | Cofeal (Italian jv) | Civil engineering | N/A | Italian foothold for BB |
| Ford (US)/Mazda (Japan)/ Sanyo (Japan) | Malaysian jv | Car audio products | N/A | M'facturing for Asia/Pacific |

**The week saw the end of history in international mergers and acquisitions. Or at least the apparent retirement of Sir James Goldsmith, writes Brian Bollen.**

**Few deals involving either Lord Hanson or Sir James are straightforward, but the US gold-for-assets swap announced by two of the world's most famous "asset-strippers" came as a particular jolt to the system after a run of simple strategy-driven deals.**

**Confusion surrounded the deal's logic and underlying motives, although Sir James said categorically that the disposal of his last substantial operating business marked the end of his business career. But if he is following his brother and going green, then selling Cavenham Forest Industries - the world's sixth-largest private owner of timberlands - seems a curious way to start.**

**The transaction continues Hanson's recent enthusiasm for investment in basic natural resources. Sir Gordon White, chairman of Hanson Industries, said that Cavenham, with its excellent profit record and strong cash flow, will further enhance Hanson's position in such resources.**

**The restructuring of the international drinks industry continued with the cross-shareholding agreement between Highland Distilleries and Remy Cointreau. The link was inevitably, if perhaps slightly unkindly, dubbed the poor man's Guinness/LVMH. It represents a logical extension of existing successful international distribution agreements and advances Remy's policy of diversifying away from cognac.**

***Japanese brewer Asahi renegotiated down the price for a stake in Elders IXL, after a slide in* the Elders share price. Subject to the approval of Australia's Foreign Investment Review Board, Asahi will buy most (17 per cent) rather than all of its planned 19.9 per cent stake from debt-laden Harlin Holdings. Asahi will buy the other 2.9 per cent in the market.**

**Fermenta of Sweden's sale of US-based fungicide producer SDS Enterprises is part of its strategy of reducing its biotechnology interests to concentrate on financial services.**

Source: FT Mergers & Acquisitions International

# Whinney over halved on disappointing JJJ result

TAXABLE profits at Whinney Mackay-Lewis, the USM-quoted architect and project management consultant, were more than halved from £786,000 to £362,000 in the year to April 30.

That led to a reduction in earnings from 9p to 4p per share, and the final dividend is cut from 3p to 0.4p for a total of 2p, compared with 4.6p.

The largest single factor affecting the result, said Mr Jeremy Mackay-Lewis, chairman, was the eight months' disappointing contribution from Johnson Jackson Jeff, the project management consultant.

Benefits of the creation, via the acquisition of JJJ, of a vertically integrated property services group had failed to materialise; JJJ was demerged in April and below the line there was a distribution *in specie* of £404,000 made to the A ordinary holders on the demerger.

Also included in the results was one month's profit from Cardiff-based Hoggett Lock-Necrews, acquired in April, which added a national side to City-based Whinney.

Turnover rose to £8.65m (£6.4m).

Mr Mackay-Lewis said that the operating profit of £978,000 had showed a "modest" improvement in the second half, but was, nonetheless, 20 per cent lower than the previous year's figure.

Interest was 38 per cent higher *at £616,000.*

# Co-op lifts trading profits by 6%

**The Co-operative Wholesale Society increased its trading *profits by just under 6 per cent* to £14.9m, on consolidated sales up by 9.5 per cent to *£1.3bn in the 24 weeks to June 24,* Mr Lennox Fyfe, chairman, told delegates at the CWS's half-year meeting.**

**The figures did not include the results of the North Eastern Co-operative Society, which has joined the CWS but retains its own regional identity.**

# Hillsdown purchase

**Hillsdown Holdings, the diversified food group, is to issue shares to the value of £1.49m to purchase the 25 per cent minority holding in Hillgas, its Sheffield-based liquefied petroleum gas distributor.**

## COMPANY NEWS IN BRIEF

GROFUND INTERNATIONAL: Net revenue for six months to August 29 1990 was £770,110 (£593,598). Investment income £1m (£608,957).

MINERALS OILS and Resources Shares Fund (Panama-based open-ended investment company): Revenue before tax $302,364 ($288,554) for the year to August 29 1990. Tax $62,291 ($73,510).

URS INTERNATIONAL is selling its Phillipines activities to Century Properties Management for a total of $365,000.

## BASE LENDING RATES

| | % | | % | | % |
|---|---|---|---|---|---|
| ABN Bank | 14 | Coutts & Co | 14 | Northern Bank Ltd | 14 |
| Adam & Company | 14 | Cyprus Popular Bk | 14 | Nykredit Mortgage Bank | 14½ |
| Allied Trust Bank | 14 | Dunbar Bank PLC | 14 | Provincial Bank PLC | 15 |
| AIB Bank | 14 | Duncan Lawrie | 14 | Roxburghe Bank Ltd | 15½ |
| ● Henry Ansbacher | 14 | Equatorial Bank plc | 14 | Royal Bk of Scotland | 14 |
| Associates Cap Corp | 15½ | Exeter Trust Ltd | 14½ | Royal Trust Bank | 14 |
| ● B & C Merchant Bank | 14 | Financial & Gen. Bank | 14 | ● Smith & Williams Secs. | 14 |
| Bank of Baroda | 14 | First National Bank Plc | 16½ | Standard Chartered | 14 |
| Banco Bilbao Vizcaya | 14 | ● Robert Fleming & Co. | 15 | TSB | 14 |
| Bank Credit & Comm | 14 | Robert Fraser & Ptnrs. | 14½ | Unibank plc | 14 |
| Bank of Cyprus | 14 | Girobank | 14 | ● United Bk of Kuwait | 14 |
| Bank of Ireland | 14 | ● Guinness Mahon | 14 | United Mizrahi Bank | 14 |
| Bank of India | 14 | HFC Bank plc | 14 | Unity Trust Bank Plc | 14 |
| Bank of Scotland | 14 | ● Hambros Bank | 14 | Western Trust | 14 |
| Banque Belge Ltd | 14 | Hampshire Trust Plc | 15½ | Westpac Bank Corp. | 14 |
| Barclays Bank | 14 | Heritable & Gen Inv Bnk. | 14 | Whiteaway Laidlaw | 14 |
| Benchmark Bank | 15 | ● Hill Samuel | 14 | Yorkshire Bank | 14 |
| Brit Bk of Mid East | 14 | C. Hoare & Co. | 14 | | |
| ● Brown Shipley | 14 | Hongkong & Shangh | 14 | | |
| CL Bank Nederland | 14 | ● Leopold Joseph & Sons | 14 | | |
| ● Charterhouse Bank | 14 | Lloyds Bank | 14 | | |
| Citibank NA | 14 | Meghraj Bank Ltd | 14 | | |
| City Merchants Bank | 14 | McDonnell Douglas Bnk | 14 | | |
| Clydesdale Bank | 14 | Midland Bank | 14 | | |
| Comm. Bk. of London Plc | 14 | Mount Banking | 14 | | |
| Co-operative Bank | *14 | Nat Bk. of Kuwait | 15 | | |
| | | NatWestminster | 14 | | |

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COMPANIES AND FINANCE

# Bidders line up for stake in Telmex

By Richard Johns in Mexico City

TWELVE foreign telecommunications companies are in the running for a stake in Telefonos de Mexico (Telmex), the 56 per cent majority state-owned monopoly scheduled for privatisation by the end of the year, Mexico's Ministry of Finance announced.

Only four Mexican groups have submitted letters of intent.

The foreign companies, which can only be a 49 per cent minority partner with a Mexican concern, are: Southwestern Bell Corporation, Nynex International, GTE Telephone Corporation, Bell Canada, Telefonica de España, France Cable and Radio (France Telecom), Stet (Italy), Nippon Telephone and Telegraph, Cable and Wireless (UK), Singapore Telecom, US Sprint (United Telecommunications) and Citibank.

Two prominent Mexican brokerage houses, which have built up strong share positions in Telmex, are named as heading groups of investors.

In this preliminary round the other national bidders include Grupo Carso, a consortium led by leading entrepreneur Mr Carlos Slim Helu which has connections with France Telecom and Southwestern Bell Corporation, and Gentor.





# Texas Instruments pushed into loss by falling prices

By Louise Kehoe in San Francisco

A SLUMP in memory chip prices combined with heavy costs of new plant construction drove Texas Instruments, one of the leading US semiconductor and electronics manufacturers, into losses for its third quarter.

The company reported a third-quarter net loss of $7m. After payment of preferred stock dividends, losses totalled $16m, or 19 cents per share. In the third quarter last year, TI posted net income of $65m or 67 cents per share.

Revenues for the quarter were $1.68bn, compared with $1.57bn in last year's third quarter.

The latest results were also hit by the temporary disruption of business at TI's semiconductor operation in the Philippines following an earthquake in July, the company said.

TI earned $41m in royalty payments in the third quarter from semiconductor manufacturers that have licensed its patents, bringing total royalties over the past four years to $650m.

"Although TI's high level of investment is having a negative effect on current financial performance . . . by 1992, we plan to have nine submicron CMOS wafer-fabrication facilities worldwide, deployed in every major market area, providing the opportunity for TI to gain share in the world semiconductor market," said Mr Jerry Junkins, TI chairman, president and chief executive.

For the nine months ended September 30, net income was $17m, down sharply from $256m. Revenues were virtually unchanged at $4.81bn, against $4.80bn.

But after the payment of dividends on preferred stock, TI recorded a net loss of $10m, or 12 cents per share, compared with net income of $226m, or $2.70 per share in the first nine months of 1989.

# Warburg quits paper markets

By Simon London

WARBURG Securities, the UK merchant bank, has pulled out of the sterling and Eurocommercial paper markets, blaming the "lack of potential for profitability" in the area.

Its move is the most significant departure from the European commercial paper market since Merrill Lynch withdrew last December.

The firm had been a significant dealer in the commercial paper markets since the mid-1980s, dealing paper under 230 commercial paper programmes.

It also acted as sole dealer on two programmes – including a £200m sterling commercial paper programme for Burton Group.

The team led by director Mr Ken Baugh is being redeployed within Warburg, with most being transferred to a new medium-term note teamthat Mr Baugh will also head.

The Eurocommercial paper market – where mostly US dollar paper is issued in Europe – and the sterling commercial paper market have stagnated over the past year, partly because of the growing credit concerns surrounding some companies.

This has reduced the amount of outstanding paper, while the increased risk of default on the paper has increased the possibility of damaging investor relations.

# Overseas sales help lift Kellogg profit 31.8%

By Nikki Tait in New York

ADVANCES overseas helped Kellogg, the US food group, to shrug off a weak market for cereals in the US and post a 31.8 per cent improvement in after-tax profits in the three months to end-September.

In the third quarter, the group made a net $162.3m, compared with $123.1m in the same period a year earlier. Earnings per share rose from $1.02 to $1.34, while sales increased by 13.1 per cent to $1.85bn.

Kellogg said the US market for ready-to-eat cereal was still "soft," with intense competition making it difficult to regain market share, but added that there were "substantial" volume gains in the international division.

For the nine months, Kellogg is showing an 8.3 per cent profits advance before accounting changes. However, after making these alterations, which inflated 1989 profits, the net profit figures showed a 4.4 per cent decline at $394.3m.

# Zenith fall slowed by reduction of overheads

By Nikki Tait

LOSSES after tax at Zenith Electronics were reduced from $24.1m to $11.6m in the three months to end-September, on sales of $342.3m. Sales in the same period a year earlier stood at $376.8m.

However, the company said that its consumer electronics business was affected by the general economic slowdown, reducing sales of picture tubes to other TV manufacturers and of video cassette recorder products.

Lower average prices and pressure on costs were only partly offset by a reduction in overheads and some efficiency gains.

On the components front, sales were down by 8 per cent, largely due to reduced shipments of monochrome displays to the computer industry.

The nine-month loss now stands at $37.8m after tax, compared with a deficit of $41.1m a year ago.

● Pinnacle West Capital, the Arizona utility, saw its third quarter earnings from continuing operations fall due to a $26m increase in interest on long-term debt, Reuters reports.

Third-quarter earnings from continuing operations fell to $55.5m or 64 cents a share from $67.3m or 78 cents in 1989.

# Severn Trent may sue Caird over £8.5m profit forecast

By Richard Gourley in London

SEVERN TRENT, the newly privatised water company, is considering suing Caird, the waste disposal company, for which it launched a hostile £78m ($153m) bid last month, on the grounds that it published an over-optimistic view of its future profits.

The water company has also applied to the Takeover Panel for permission to lapse its bid and separately has taken the unusual step of seeking the right to submit a new offer at a lower price.

Severn Trent's bid for the former property company turned sour last week when Caird, whose shares closed the week at 57p, recommended that its shareholders should accept the 100p a share bid. Severn Trent now holds 29.98 per cent of Caird's shares.

Samuel Montagu, Severn Trent's merchant bank, is due to announce at 9am this morning the level of acceptance at the first stage of the offer. The Takeover Panel is expected to decide on Severn Trent's request to lapse the bid by Wednesday.

Severn Trent claims that when Caird forecast six weeks ago a pre-tax profit of £8.5m for the 18 months to December 1990, it was giving an over-optimistic view of the state of the business.

Severn Trent made it a condition of its bid that Caird repeat the forecast but in the defence document last week it cut its forecast to £7.15m because it had eliminated two items included in the previous forecast. Severn Trent is also questioning Caird's valuation of its assets in its defence document.

Caird says that Severn Trent does not have a case. It says the £8.5m forecast was neither audited nor warranted and that in any case Mr John Bellak, chairman of Severn Trent, was warned about the quality of the earlier forecasts. Caird says Mr Bellak was told before the Severn Trent bid that Caird wanted 2-3 weeks more to re-examine their forecasts.

# US paper group plans sale of French unit

By William Dawkins in Paris

GEORGIA-Pacific of the US, one of the world's largest wood and paper groups, is negotiating to sell its FFr850m ($169m) turnover per year French subsidiary.

The possible sale of Laurent-Espaly, which has 6 per cent of the French corrugated cardboard market, forms part of Georgia-Pacific's debt reduction efforts.

Georgia-Pacific, formerly eleventh in the world market, paid $3.6bn last February to buy its chief rival, Great Northern Nekoosa of the US. It raised $61m earlier this month from the sale of four UK factories to their own management.

Jefferson Smurfit, the Irish paper group, is understood to be a front runner among several groups competing for Laurent-Espaly.

The Irish company is keen to expand further in France, following its acquisition last May of Compagnie Générale du Papier, which has a 2 per cent share of the corrugated cardboard market. A decision is likely in the next few weeks, say Laurent-Espaly officials.

This is the latest stage in a long-running reorganisation of the French paper and packaging industry, since the FFr1.32bn takeover last June of Chapelle d'Arblay, the newsprint and magazine paper producer, by Kymmene, the Finnish paper group.

# Kymmene fall reflects industry downturn

By Enrique Tessieri in Helsinki

KYMMENE, Finland's largest forest group, reported a sharp drop in group pre-tax profits during the first eight months of this year to FM359m ($100m) from FM898m the previous year.

Operating profit fell by 22 per cent to FM849m from FM1.08bn, while consolidated turnover rose by 23 per cent to FM9.07bn from FM7.39bn. Earnings per share plunged to FM2.20 from FM10.80.

Kymmene blamed the profits drop on the global downturn in the forest industry, which has been characterised by over-capacity and lower prices for pulp and paper products. The group's main paper products, which include coated magazine paper and uncoated fine paper, saw a 5 per cent drop in export prices compared with last year.

Kymmene's pre-tax profits were boosted last year by exchange gains of FM128m.

# Noranda Forest C$40m in red

NORANDA FORESTS, the pulp and paper arm of Canada's largest resource group, Noranda, recorded losses for the third quarter and nine months because of soft markets, high interest costs, a high Canadian dollar and delays in new projects, writes Robert Gibbens in Montreal.

Third-quarter loss was C$40m ($US34m) or 45 cents a share, against profits of C$45m or 40 cents. Nine-month loss was C$38m against profits of C$163m.





| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 7 | 24 | 40 | 56 | 72 | [illegible] | 104 | 121 | 136 | 153 | 168 | 185 | 201 |
| 217 | 233 | 250 | 265 | 282 | 297 | 314 | 331 | 346 | 363 | 378 | 395 | 411 |
| 427 | 443 | 460 | 475 | 492 | 507 | 524 | 540 | 556 | 572 | 588 | 604 | 621 |
| 636 | 653 | 668 | 685 | 701 | 717 | 733 | 750 | 765 | 782 | 797 | 814 | 831 |
| 846 | 863 | 878 | 895 | 911 | 927 | 943 | 960 | 975 | 992 | 1007 | 1024 | 1040 |
| 1056 | 1072 | 1088 | 1104 | 1121 | 1136 | 1153 | 1168 | 1185 | 1201 | 1217 | 1233 | 1250 |
| 1265 | 1282 | 1297 | 1314 | 1331 | 1346 | 1363 | 1378 | 1395 | 1411 | 1427 | 1443 | 1460 |
| 1475 | 1492 | 1507 | 1524 | 1540 | 1556 | 1572 | 1588 | 1604 | 1621 | 1636 | 1653 | 1668 |
| 1685 | 1701 | 1717 | 1733 | 1750 | 1765 | 1782 | 1797 | 1814 | 1831 | 1846 | 1863 | 1878 |
| 1895 | 1911 | 1927 | 1943 | 1960 | 1975 | 1992 | | | | | | |

# INTERNATIONAL CAPITAL MARKETS

UK GILTS

## Weak pound leads to nervousness

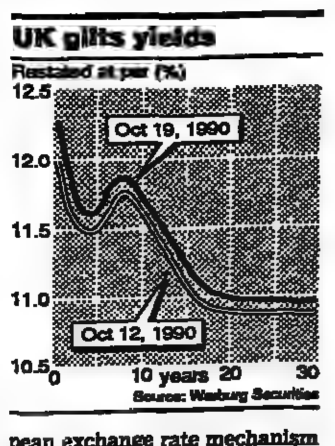
WORRIES about inflationary pressures and a feeling of let-down after Mr John Major's Mansion House speech last week have done nothing to pep up the gilt-edged securities market.

Gilts traders would have liked nothing better than for Mr Major, the chancellor, to have announced a round of new gilts issues to pay for higher than expected public spending when he made his annual address to the City of London's bankers on Thursday.

Unfortunately for the traders, Mr Major ducked this challenge and announced instead that he was considering new issues of long-term Ecu bonds.

Cash gained from selling any UK Ecu bonds will boost the government's reserves, rather than pay for public spending. They would be treated separately from gilts although gilts market makers would probably be allowed to deal in them.

Apart from a brief rally after Britain's entry into the European exchange rate mechanism (ERM) was announced just over two weeks ago, the gilt market has been subdued since the summer, partly due to the lack of new issues. Many gilt dealers still expect new securities over the next few months, but the chancellor's failure to mention this point hardly caused the market to spring into life.




Prices for most gilts slid slightly over the week, matching this mood of depression. The benchmark Treasury 9 per cent bond maturing in 2008 closed on Friday at just under 84, a fall of roughly three quarters of a point on the week. The yield rose from 10.95 per cent to just over 11 per cent.

The sombre mood was partly due to government figures last week showing that average earnings in August rose by an annual 10.25 per cent, the same level as the revised figure for July.

The numbers for both months are one of the clearest signs for the government of inflationary pressures and illustrate that its rhetoric on keeping down wage increases has yet to be translated into reality.

More worrying still is that while UK wages are going up, the economic slowdown is causing industrial output to slacken. Unit wage costs, an indicator of productivity, rose from an annual rate of 7.8 per cent in July to 8.6 per cent in August, the highest level for nine years.

Last week's figures for monetary expansion will have given Mr Major some solace. They showed that the narrow measure M0, mainly comprising notes and coins circulating in the economy, last month was climbing at the modest level of 4.6 per cent a year. That was the second month running that the figure was within the government's 1 to 5 per cent target range and is a sign that demand pressures may be declining.

The pound's weakness is contributing to the gilt market's nervousness. It hovered for most of last week at just above its central ERM rate of DM2.95 and spent most of Friday at slightly below this level. International investors, in particular, are unlikely to become wildly enthusiastic about gilts while sterling remains in this condition.

**Peter Marsh**

GERMANS BONDS

## Interest in supply remains paramount

SO INURED have bund market watchers necessarily become over past months to ever larger official cash calls that they will even fall for the prospect of a DM30bn zero coupon bond – just about.

One German bank director, seeing the news flashed mid-morning on Thursday across the screens that the Staatsbank Berlin was planning exactly such a DM30bn issue, confesses to dumping his bund futures position only to miss out on the one decent rally of the week.

But the issue, which was slightly less than a third of the entire year's projected public sector borrowing requirement, and a virtually inconceivable sum to raise in a single bond, turned out to be an "inter-bank" transaction, hence not immediately a money-raising exercise.

The confusion, it transpires, was caused by a lack of information from DGZ, the Frankfurt institution underwriting the deal, which simply repackages east German savings banks' deposits.

This tale, while highlighting the long-suffering demeanour developing in the strained bond market, by no means indicates dealers can no longer be frightened. Quite the reverse. New issue supply questions, with the seemingly untameable costs of unification, remain paramount.

While the bond market staged a brief technical rally on Thursday of over 50 basis points on the Liffe futures contracts, no one was fooled into looking for longer term trends.

International interest in D-Mark securities is still minimal, with virtually the only involvement sparked by short-term currency plays. The dollar was fixed at a new historic low against the D-Mark of DM1.5058 in Frankfurt on Friday.

But Bund futures came off the day's highs on Friday afternoon, depressed by the prospect of tomorrow's issue for the postal authorities for a likely DM2bn to DM3bn. A small amount by current standards, but it still came as a surprise, because dealers had been prepared for a railway issue connected with overhauling the east German system, which is presumably still to come.

Because supply numbers are sufficiently hard to pin down, estimates even to the end of the year vary wildly. UBS stands by its end-September estimates that gross debt issuance by the government, Länder and local authorities in the fourth quarter could be as high as DM51bn.

This may be excessively gloomy. And, perhaps more importantly – as UBS now concedes – the government is anyway deploying so many diverse funding instruments that considerable sums are being quietly absorbed away from the public eye.

Of the DM20bn targeted for the German Unity Fund this year, for instance, around DM7.6bn has been raised by Schuldscheindarlehen or promissory notes, the latest Bundesbank monthly report reveals.

Given DM9bn has already come in 10-year offerings, it is unlikely – contrary to market expectations – that a further public issue will be necessary before the end of the year.

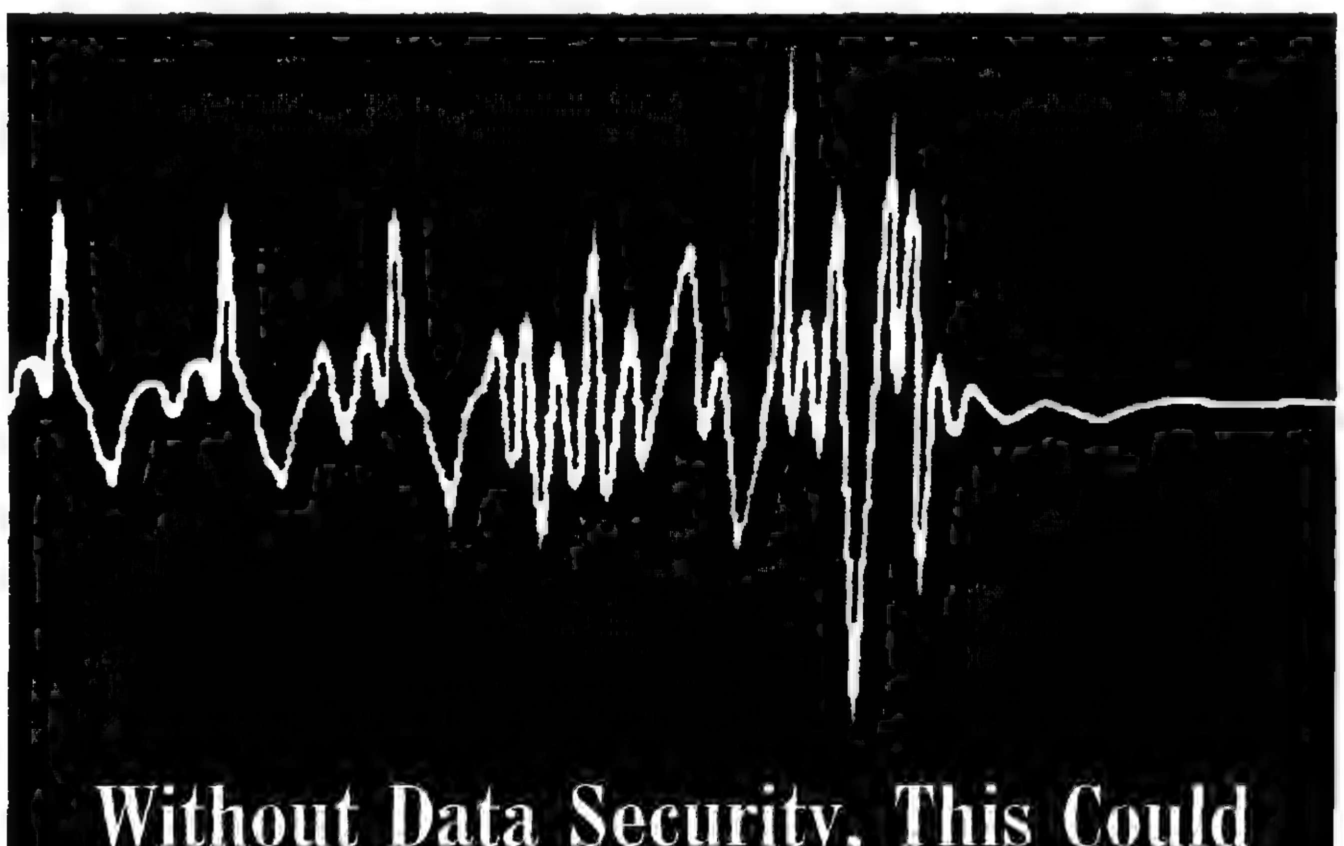
**Katharine Campbell**

### NRI TOKYO BOND INDEX

| December 1983 = 100 | 19/10/90 | Average yield† (%) | Last week | 12 wks ago | 26 wks ago |
|---|---|---|---|---|---|
| | PERFORMANCE INDEX | | | | |
| Overall | 144.85 | 7.88 | 143.10 | 145.15 | 142.61 |
| Government Bonds | 141.68 | 7.81 | 139.72 | 142.48 | 140.39 |
| Municipal Bonds | 147.19 | 7.81 | 144.91 | 147.13 | 143.95 |
| Govt.-guaranteed Bonds | 149.59 | 7.94 | 147.82 | 149.88 | 146.29 |
| Bank Debentures | 143.56 | 7.86 | 142.15 | 142.69 | 140.20 |
| Corporate Bonds | 147.16 | 8.29 | 145.71 | 148.90 | 145.78 |
| Yen-denom. Foreign Bonds | 150.25 | 8.76 | 149.98 | 154.55 | 152.06 |
| Government 10-year | 7.31 | | 7.56 | 6.97 | 6.86 |

† Estimated par yield

Source: Nomura Research Institute






US MONEY AND CREDIT

## 'Gridlock' affects the bond traders

SOME OBSERVERS have referred to the lengthy haggling in Washington as "Budget gridlock". The phrase is apposite; as with all traffic jams, a snarl-up in one area leads to a snarl-up somewhere else.

The bond market is a good example. For months, two separate sets of "gridlock" – the one in Washington and another in the Middle East – have been affecting the smooth running of the traffic here.

Moreover, as these situations showed signs of easing last week and bond prices nudged forward, some forecasters started to sense a third area which could set the amber lights flashing – namely, a rapidly declining dollar.

The good news was twofold. On the budget front, both Houses of Congress have now passed versions of a deficit reduction bill. Reconciliation remains necessary, and the political bickering is not quite at an end.

Nevertheless, for the market – which knows that there is unlikely to be any easing of interest rates until a credible package is agreed – this much is encouraging news.

The bulls, moreover, are even hopeful that the timescale from here on is fairly short. As Donaldson, Lufkin & Jenrette, the US brokerage house suggests: "The main points of disagreement will be the increase in the top income tax rate, which raises $50bn over five years (as approved by the House) and the increase in gasoline excise taxes which raises $42.6bn over five years (as approved by the Senate) . . . We expect a compromise to be passed by next week at the latest, if only for the simple reason that Congress would most likely want to allocate campaigning time prior to the November 6 elections."

More complex, perhaps, but equally cheering were the various developments on the economic front. By the end of last week, oil prices had fallen to their lowest level for a month, and bond traders' sprits had risen commensurately.

This progress, admittedly, was not built on the most solid of foundations; the main factor behind the drop was some conciliatory remarks by Iraq's first deputy prime minister.

Still, the effect on the bond market on Friday was fairly dramatic; the yield on the benchmark Treasury long bond fell to 8.74 per cent, compared with 8.81 per cent at the previous day's close, and 8.95 per cent a week earlier.

Moreover, earlier in the week, the run of monthly statistics had also thrown up some relatively encouraging pointers on the inflation front, the oil price factor aside.

Overall, the data showed the consumer price index rising 0.8 per cent in September, pushing the nation's inflation rate to 6.2 per cent year-on-year, against 4.7 per cent in calendar 1989.

But all eyes were on the "core," non-food/non-oil, rate. This, by contrast, showed an advance of 0.3 per cent, having averaged 0.5 per cent in the previous three months.

Reaction among analysts ranged from gleeful to wary. "We are optimistic that the September deceleration in the core inflation rate is the harbinger of reduced inflation in the future," commented DLJ.

"Although September's decline in inflation excluding food and energy to about half the pace of the previous two months was welcome relief, it represents a payback for those overstated readings and does not signal a downtrend in the underlying inflation rate," cautioned Salomon Brothers.

So far, so good – but what of the dollar? The tumbling currency was certainly giving some bond market analysts pause for thought last week, even if their fears centre on the longer-term implications.

As economists at Nikko Securities were pointing out, this development has pros and cons. On the plus side, there is the expansionary aspect, as the weaker currency helps US competitiveness. The drawback is that, as the dollar weakens, the inflationary pressures build up.

"Thus the Federal Reserve is opposed to a weaker dollar plan," suggests Nikko, "and the drooping dollar will keep the Fed from easing more aggressively."

Others concur. "The bond market has ignored the utter lack of interest in US securities by foreign investors and the concomitant sharp slide in the dollar," say analysts at Salomon.

"US Treasury officials have cheered the currency lower . . . but as the environment becomes less amiable, market participants and Federal Reserve officials may come to regard this benign neglect as malignant."

In short, if the road ahead looked somewhat clearer by the end of last week, it would be a brave man who predicted trouble-free motoring yet.

**Nikki Tait**

### US MONEY MARKET RATES (%)

| | Last Friday | 1 week ago | 4 wks ago | 12-month High | 12-month Low |
|---|---|---|---|---|---|
| Fed Funds (weekly average) | 7.88 | 7.78 | 7.75 | 9.92 | 7.78 |
| Three-month Treasury bills | 7.47 | 7.36 | 7.57 | 9.11 | 7.20 |
| Six-month Treasury bills | 7.53 | 7.50 | 7.63 | 9.37 | 7.18 |
| Three-month prime CDs | 8.13 | 8.19 | 8.02 | 10.35 | 7.65 |
| 30-day Commercial Paper | 8.10 | 7.95 | 8.00 | 9.95 | 7.87 |
| 90-day Commercial Paper | 8.06 | 7.90 | 7.80 | 10.05 | 7.70 |

### US BOND PRICES AND YIELDS (%)

| | Last Fri. | Change on wk | Yield | 1 week ago | 4 wk. ago |
|---|---|---|---|---|---|
| Seven-year Treasury | 102[illegible] | +1[illegible] | 8.47 | 8.68 | 8.72 |
| 20-year Treasury | 105[illegible] | +1[illegible] | 8.76 | 8.99 | 9.05 |
| 30-year Treasury | 99[illegible] | +2[illegible] | 8.74 | 8.96 | 9.01 |

Money supply: In the week ended October 8, M1 fell by $6.9bn to $821.9bn

### FT/AIBD INTERNATIONAL BOND SERVICE

[illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

Closing prices on October 19

# INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

## Business for the fleet of foot

THE PRICES companies need to pay for financing are still rising and bankers are resisting an involvement in funding plans that they believe offer too small a profit margin for their own institutions. The latest victim of this trend was Citicorp's deal for Elf's UK oil interests which was re-priced on Friday after only a week in the market.

The problem now is that, in an extremely volatile market, bank arrangers must run swiftly to launch deals soon after receiving a mandate or prices will have moved away from them. Citicorp was involved in discussions with Elf for about six weeks before presenting the deal to the market and by the time it emerged, banks were looking for a higher price.

The £700m multi-option facility has now been re-priced to offer a facility fee five basis points higher than before at 15 basis points. The margin has been raised by 2½ basis points to 17½ for the first five years and 22½ for the following five.

Management fees have also been increased by three to four basis points for differing levels of commitment. Citicorp believes that in acting swiftly to boost prices in response to different market conditions, the new terms will help the deal win favour in syndication.

The re-pricing of the Elf deal is likely to convince the electricity generating companies that they will have to pay a higher cost for funds. National Power and Powergen are understood to have been balking at paying a rate much higher than Elf while the deal remained in the market.

The mandates for the generators are close to being awarded with Samuel Montagu rumoured to be arranging the £1bn loan for Powergen in conjunction with S. G. Warburg. Fierce bidding continues for the £1.5bn National Power mandate although Manufacturers Hanover is rumoured to be close to clinching the deal.

Another victim of the market's poor conditions is the facility for American Airlines which was arranged by Credit Suisse First Boston and is now reported to have been reduced from $700m to $300m.

Barclays has revealed more details of its $700m facility for Oil Insurance, the Bermuda-based insurance firm which is owned by 48 of the world's major oil companies. The facility refinances an existing $500m loan in the market and will provide working capital.

The structure of the existing deal shows how far prices have risen in the market since the launch of the last facility for the company 18 months ago. The current loan pays an interest rate of 40 basis points over the London interbank offered rate (Libor) compared with a 25-basis point margin on the previous deal, showing a rise in price of 60 per cent.

The deal, which includes a $250m medium-term loan and a $450m revolving credit facility, pays a commitment fee of 20 basis points a year on undrawn balances. Participation fees rise according to the amount committed from 10 basis points to 17.5 for $50m and above.

Chase has won the mandate for a DM210m loan for the London arm of one of Spain's largest holding companies, Torras Hostench. The deal pays a margin of 62.5 basis points over Libor with a fee of 25 basis points at the upper end. The interest in the deal is secured against shares in EBRO, a Spanish food company.

In addition, Chase is arranging a loan for MTM, the UK chemicals company that has recently acquired Hardwick Chemical in the US. The loan is in two tranches; one of $80m and one of £15m, paying a margin of 75 basis points and a participation fee of 20 points.

**Deborah Hargreaves**

### EUROMARKET TURNOVER ($m)

| Primary Market | Straights | Conv | FRN | Other |
|---|---|---|---|---|
| US$ | 1,016.8 | 0.0 | 150.0 | 14,389.7 |
| Prev | 533.6 | 0.0 | 478.0 | 13,564.5 |
| Other | 1,487.6 | 3.2 | 40.1 | 6,601.3 |
| Prev | 1,713.7 | 0.0 | 907.8 | 8,242.4 |
| **Secondary Market** | | | | |
| US$ | 19,071.5 | 954.6 | 9,188.6 | 7,984.7 |
| Prev | 14,158.3 | 831.1 | 5,409.4 | 7,656.8 |
| Other | 25,730.2 | 1,498.1 | 8,116.3 | 41,714.3 |
| Prev | 20,731.7 | 1,208.1 | 8,322.5 | 31,672.9 |

| | Cedel | Euroclear | Total |
|---|---|---|---|
| US$ | 20,220.8 | 31,949.1 | 52,169.9 |
| Prev | 16,069.0 | 26,552.7 | 42,621.7 |
| Other | 32,993.4 | 51,699.9 | 84,693.3 |
| Prev | 27,404.6 | 42,594.5 | 69,999.1 |

Week to October 19, 1990 Source: AIBD

INTERNATIONAL BONDS

## Life looks up for supporters of the Ecu market

LAST WEEK was a good one for proponents of the Ecu international bond market. On Thursday, the French futures exchange, the Matif, launched its long-awaited Ecu bond futures contract. On the same day Mr John Major, the UK chancellor, confirmed the UK government may soon issue an Ecu-denominated gilt.

Moreover, these two events come against the background of sterling's entry to the European exchange rate mechanism, which in theory removes a whole layer of volatility from the Ecu basket of currencies.

Since sterling makes up an eighth of the value of the Ecu, its volatile behaviour has pulled the Ecu with it. Over the past 12 months sterling has fluctuated by 20 per cent against the D-Mark. This alone implies a 2½ per cent move in the value of the Ecu.

Before the Gulf crisis, the Ecu bond sector was performing rather well. During the first part of the summer, Ecu bond yields tightened considerably against most other currencies. For example, at 10-year maturity the spread over the German bond market closed from 156 basis points at the end of June to 135 basis points the week before the Iraqi invasion of Kuwait.

Strong retail demand is generally cited as the reason for this bull-run, hence the collapse in prices since the Gulf crisis erupted and retail investors began switching funds into cash. The 10-year yield differential over bunds now stands back at 147 basis points.

However, supporters of the Ecu sector claim that comparison with the German market, which is dominated by domestic money, is unfair. They point out that the 10-year spread over the French bond market has remained at 0 to 10 basis points throughout the Gulf crisis. They claim Ecu bonds are now no more volatile than any other truly internationalised sector.

The French government Ecu-denominated OAT issue, now standing at around Ecu3.5bn, has already stimulated the interest of institutional investors in this formerly retail-dominated sector. The Matif's offer of a hedge against exposure to the Ecu may provide a further stimulus.

In its initial stages, only the French government Ecu-denominated OAT issue is deliverable into the Matif contract, but this may well be extended to other liquid international bond issues.

If the UK government does issue an Ecu-denominated gilt there will be pressure for the London International Financial Futures Exchange to launch its own Ecu bond futures contract.

At present, institutional investment in Ecu is limited by "prudential regulation" within the European Community, described in a recent paper by Salomon Brothers' analyst Graham Bishop as a system of "covert exchange controls". Life and non-life insurance companies are particularly hampered by a regulatory environment which prevents currency mis-match of assets and liabilities.

However, Mr Bishop points out that the European Commission's third directive on non-life insurance proposes that Ecu holdings could be used by insurance companies to cover liabilities in any EC currency. A similar proposal will also be made for life insurance companies.

The proposal, made in article 21 of the directive, can be adopted at the option of each individual member state. It remains to be seen how many EC governments may embrace the clause but it could unlock vast resources for investment in Ecu assets.

The biggest borrowers in Ecu have been governments and supra-national institutions. Corporate borrowers have only looked at borrowing in Ecu when swap opportunities were good – usually after a domestic issue of Italian government Ecu paper. UK companies have been especially shy.

Of Ecu65bn paper outstanding in the international bond markets, just Ecu1.2bn has been issued by UK companies. Against this, French borrowers have Ecu11.5bn outstanding, Italian borrowers Ecu6.5bn and US borrowers Ecu5.3bn.

The UK financial sector has been most active, with Abbey National having three outstanding issues totalling Ecu275m. Maxwell Communications and Heron Corporation are the only UK corporate names on the roster, although Bass Charrington issued a bond denominated in European Units of Account (the predecessor of the Ecu) as far back as 1973.

But could sterling's ERM entry and Ecu-denominated gilt issues bring a flood of UK corporate borrowers to the market?

The advantages of the Ecu are clear, in that it offers a cheap source of funding, saving around 150 basis points at the 10-year maturity over sterling bond issues.

The down-side has always been the threat of sterling volatility against the Ecu, as with other European currencies. Sterling's entry into the ERM removes some of the threat, although the 6 per cent divergence band is hardly a strait-jacket.

The advent of a single Ecu-denominated gilt issue would provide a clear incentive for the government not to devalue sterling against the Ecu.

A sustained programme of Ecu-denominated gilt issuance would tie the government firmly to the existing central rate and could open the door to concerted corporate issuance.

**Simon London**

### NEW INTERNATIONAL BOND ISSUES

| Borrowers | Amount m. | Maturity | Av. life years | Coupon % | Price | Book runner | Offer yield % |
|---|---|---|---|---|---|---|---|
| **US DOLLARS** | | | | | | | |
| Japan Leasing USA(f)★★◆ | 30 | 2000 | 10 | (g) | 101⅞ | Merrill Lynch Int. | - |
| Citizen Watch Co.♦◆ | 200 | 1994 | 4 | 4⅞ | 100 | Nikko Secs.(Europe) | 4.875 |
| SEK(j)◆ | 20 | 1991 | 1 | 13½ | 101½ | UBS Phillips & Drew | 11.828 |
| Bando Chemical Ind.♦◆ | 100 | 1994 | 4 | 5 | 100 | Nomura Int. | 5.000 |
| EIB◆ | 300 | 1997 | 7 | 9¼ | 99.46 | SG Warburg Secs. | 9.359 |
| Japan Highway Pub.Corp◆ | 190 | 2000 | 10 | 9½ | 101⅝ | LTCB Int. | 9.244 |
| Mizuno Corp♦◆ | 100 | 1994 | 4 | 4⅞ | 100 | Nomura Int. | 4.875 |
| Equitable Cap.DHO(p)†◆ | 110 | 2000 | 10 | (e) | 100 | Kidder Peabody Int. | - |
| Equitable Cap.DHO(q)†◆ | 15 | 2000 | 10 | (f) | 100 | Kidder Peabody Int. | - |
| Fujitec Co.♦◆ | 100 | 1994 | 4 | 4⅞ | 100 | Nomura Int. | 4.875 |
| Nordbanken(r)◆ | 40 | 1996 | 5⅓ | (r) | 101⅞ | IBJ Int. | - |
| **AUSTRALIAN DOLLARS** | | | | | | | |
| GMAC Aust.(Fin.)◆ | 75 | 1993 | 3 | 14 | 101.70 | Hambros Bk | 13.277 |
| **D-MARKS** | | | | | | | |
| Unitika♦◆ | 75 | 1994 | 4 | 5⅛ | 100 | Daiwa Europe GmbH | 5.125 |
| Mizuno Corp♦◆ | 70 | 1994 | 4 | 5 | 100 | Nikko Secs.GmbH | 5.000 |
| Sodick Co.♦◆ | 100 | 1994 | 4 | 5¼ | 100 | Nomura Bk GmbH | 5.250 |
| **SWISS FRANCS** | | | | | | | |
| NJK Corp.(a)★★§◆ | 50 | 1995 | - | 5½ | 100 | Handelsbank Natwest | 5.491 |
| Furusato Ind.(b)★★§◆ | 70 | 1995 | - | 5½ | 100 | Bank Leu | 5.491 |
| Kyushu Electric Power◆ | 150 | 2000 | - | 7½ | 101⅓ | SBC | 7.302 |
| Prudential Fin.Fundg.★★◆ | 100 | 1994 | - | 7⅝ | 101⅞ | UBS | 7.071 |
| Kurogane Kosakusho(g)★★§ | 60 | 1994 | - | 6 | 100 | Bank Leu | 6.000 |
| Sokkisha Co.(h)★★♦ | 60 | 1995 | - | 5⅝ | 100 | BSI | 5.625 |
| Harashin(i)★★♦◆ | 25 | 1994 | - | 5⅝ | 100 | Credit Suisse | 5.625 |
| Osaka Titanium Co.(k)★★§◆ | 140 | 1995 | - | 6 | 100 | UBS | 6.000 |
| Asian Devt.Bk(o)◆ | 100 | 2000 | - | 7⅛ | 102 | SBC | 7.089 |
| Uni-Charm Corp★★◆ | 70 | 1997 | - | 8 | 100⅝ | Credit Suisse | 7.880 |
| Chinon Ind.★★♦ | 40 | 1994 | - | 5½ | 100 | Bank Leu | 5.500 |
| Chugai Ro Co.(n)★★♦◆ | 100 | 1994 | - | 5¾ | 100 | Yamaichi Bk (Switz) | 5.750 |
| Izumi Ind.(m)★★§◆ | 45 | 1995 | - | 6 | 100 | Nomura Bk (Switz) | 6.087 |
| **FRENCH FRANCS** | | | | | | | |
| Ente Ferrovie D'Stato(c)†◆ | 1bn | 1995 | 5 | (c) | 100 | CCF | - |
| IBM Int.Finance◆ | 750 | 1993 | 3 | 10½ | 101⅜ | CCF | 9.948 |
| **ECUs** | | | | | | | |
| Finnish Export Credit◆ | 100 | 1993 | 3 | 10½ | 101¾ | Merrill Lynch Int. | 9.798 |
| **LIRE** | | | | | | | |
| Societe Generale◆ | 150bn | 1994 | 4 | 12⅞ | 101 | Credito Italiano | 12.542 |
| **GUILDERS** | | | | | | | |
| Fokker NV◆ | 200 | 1997 | 7 | 10 | 101.95 | ABN | 9.605 |
| **YEN** | | | | | | | |
| Mitsui Real Estate Devt◆ | 5bn | 1995 | 5 | 5½ | 101½ | Nomura Int. | 8.123 |
| Mitsui Real Estate Devt(d)◆ | 5bn | 1995 | 5 | 8¼ | 101¼ | Nomura Int. | 7.937 |
| World Bank◆ | 50bn | 1995 | 5 | 7⅝ | 101.55 | Daiwa Europe | 7.245 |
| Finnish Export Cr.◆ | 30bn | 1992 | 2 | 8 | 101.075 | Nomura Int. | 7.402 |
| Abbey National★★◆ | 15bn | 1994 | 4 | 8 | 101¼ | Daiwa Europe | 7.533 |
| **LUXEMBOURG FRANCS** | | | | | | | |
| Eurofima(e)◆ | 1.3bn | 1995 | 5 | 9⅞ | 101¾ | BCEE | 9.420 |
| Societe Generale★★◆ | 600 | 1995 | 5 | 10 | 101.85 | BGL | 9.518 |
| Banque Worms★★◆ | 800 | 1996 | 6 | 10⅛ | 101¾ | BCEE | 9.726 |
| Credito Romagnolo(l)★★◆ | 500 | 1993 | 3.083 | 10¼ | 102 | Cregem Int. | 9.726 |
| CBR Finance★★◆ | 600 | 1995 | 5 | 10 | 102 | KBL | 9.479 |

★★Private placement. §Convertible. ♦With equity warrants. †Floating rate note. ◆Variable rate note. ◆Final terms. a) Put option 31/3/93 at 109¼ to yield 8.978%. Conversion premium fixed at 2.32%. b) Put option 31/3/93 at 108⅞% to yield 8.85%. Conversion premium fixed at 2.52%. c) Coupon pays 3-month Pibor + 2bp. Callable after 3 years on any coupon payment date. d) Coupon payable semi-annually. Non-callable. e) Fully fungible with issue launched 9/10/90. Amount now Lfr2.8bn. Non-callable. f) Fixed/FRN issue. Coupon pays 6-month Libor + 1% for first 2 years, then fixed at 10% thereafter. Callable after 2 years at par. g) Put option 30/11/92 at 107% to yield 9.194%. Non-callable. h) Early redemption 1/11/93 at 102%, decreasing ½% semi-annually. i) Callable after 2 years at 101%, declining ½% annually. Exercise premium fixed at 2.5%. j) US$/DM currency linked issue, at option of borrower. Non-callable. k) Put option 31/3/93 at 108½% to yield 9.074%. Conversion premium fixed at 2.5%. l) Issue launched 10/10/90. Amount increased from Lfr300mn. Non-callable. m) Put option 31/3/93 at 105½% to yield 9.239%. Conversion premium fixed at 2.5%. Coupon payable semi-annually. n) Early redemption 1/11/91 at 101½% declining ¼% semi-annually. Exercise premium fixed at 2.53%. o) Callable after 8 Years at 102%, declining 1% annually. p) Senior FRN issue. Coupon pays .80% over 6-month Libor. Callable from October 1995 on pro rata basis. q) Second priority senior FRN issue. Coupon pays 1.75% over 6-month Libor. Callable from October 1995 on pro rata basis. r) Coupon pays 31% until 27/3/91, then 8.95% annually thereafter. Note: Yields calculated on AIBD basis.

# WORLD STOCK MARKETS

## AUSTRIA

| October 19 | Sch | + or − |
|---|---|---|
| Austrian Airlines | 2,750 | .... |
| Creditanstalt | 3,700 | +70 |
| Erste Allgemeine | 20,200 | −200 |
| Jungbunzlauer | 9,780 | .... |
| Laenderbank | 1,340 | +10 |
| OeMV | 9,500 | +100 |
| Perlmooser | 1,650 | +70 |
| Radex | 885 | +5 |
| Reininghaus | 1,790 | −10 |
| Steyr-Daimler | 152 | −3 |
| Veitscher Mag | 770 | .... |
| Verbund | 490 | +10 |
| Wienerberger | 5,020 | +120 |

## BELGIUM/LUXEMBOURG

| October 19 | Frs. | + or − |
|---|---|---|
| ACEC-Union Min | 2,580 | +75 |
| Arbed | 3,100 | +110 |
| B.B.L. | 2,600 | .... |
| Bank Intl. a Lux | 13,000 | .... |
| Banque Gen. Du Lux | 13,250 | .... |
| Barco | 1,496 | −4 |
| Bekaert | 7,930 | −20 |
| Cimenx CBR | 5,940 | +30 |
| Cobepa | 4,770 | −30 |
| Do. AFV 1 | 4,750 | .... |
| Cockerill | 149 | +1 |
| Colruyt | 2,780 | +50 |

## FRANCE † (continued)

| October 19 | Frs. | + or − |
|---|---|---|
| Beghin-Say | 735 | +1 |
| Do. Certs | 615 | +15 |
| Bongrain | 2,301 | −8 |
| Bouygues | 432 | −4.8 |
| CFAO | 394 | −6 |
| CGIP | 880 | −22 |
| CMB Packaging | 116 | −3.8 |
| Carrefour | 3,550 | .... |
| Casino | 135 | +1.4 |
| Cetelem | 450 | .... |
| Chargeurs | 736 | +13 |
| Ciments Fr. | 1,060 | −10 |
| Club Mediterranee | 434.9 | +14.9 |
| Cogifi | 399 | .... |
| CGE | 565 | +5 |
| Coparex | 695 | −20 |
| CCF | 153.8 | +2.4 |
| Cred Foncier Fr | 865 | +10 |
| Cred Lyonn (CI) | 578 | +8 |
| Credit National | 881 | −10 |
| Damart | 2,184 | +34 |
| Docks de France | 3,595 | +8 |
| Dollfuss-Mieg | 355 | −7 |
| Dumez S.A. | 627 | −2 |
| Eaux (Cie Gen) | 2,309 | −3 |
| Ecco | 315 | +3.9 |
| Elf-Aquitaine | 631 | −2 |
| Do. Certs | 462 | −5 |
| Epeda-Bertrand | 990 | −13 |
| Essilor | 261 | −14 |
| Euex | 1,670 | −10 |

## CANADA

### TORONTO
*Closing prices October 19*

## INDICES

### NEW YORK

| DOW JONES | Oct. 18 | Oct. 17 | Oct. 16 | Oct. 15 | 1990 HIGH | 1990 LOW | Since compilation HIGH | Since compilation LOW |
|---|---|---|---|---|---|---|---|---|
| ◆Industrials | 2452.72 | 2387.87 | 2381.19 | 2416.34 | 2999.75 (16/7) | 2365.10 (11/10) | 2999.75 (16/7/90) | 41.22 (2/7/32) |
| Home Bonds | 89.13 | 88.74 | 88.82 | 89.03 | 93.04 (3/1) | 88.44 (24/9) | — | — |
| Transport | 856.88 | 821.93 | 823.41 | 832.29 | 1212.77 (6/6) | 821.93 (17/10) | 1532.01 (5/9/89) | 12.32 (8/7/32) |
| Utilities | 208.31 | 207.49 | 206.55 | 206.99 | 236.23 (2/1) | 190.96 (24/8) | 236.23 (2/1/90) | 10.50 (8/4/32) |

◆Day's High 2461.63 (2418.56) Low 2391.83 (2358.17)

| STANDARD AND POOR'S | Oct. 18 | Oct. 17 | Oct. 16 | Oct. 15 | 1990 HIGH | 1990 LOW | Since compilation HIGH | Since compilation LOW |
|---|---|---|---|---|---|---|---|---|
| Composite ‡ | 305.74 | 298.76 | 298.92 | 303.23 | 368.95 (16/7) | 295.46 (11/10) | 368.95 (16/7/90) | 4.40 (1/6/32) |
| Industrials | 358.86 | 349.98 | 350.09 | 356.03 | 437.37 (16/7) | 346.86 (11/10) | 437.37 (16/7/90) | 3.62 (21/6/32) |
| Financial | 19.83 | 19.28 | 19.46 | 19.92 | 31.87 (3/1) | 19.24 (11/10) | 35.24 (9/10/89) | 8.64 (1/10/74) |
| NYSE Composite | 167.13 | 163.59 | 163.64 | 165.84 | 201.13 (16/7) | 162.20 (11/10) | 201.13 (16/7/90) | 4.46 (25/4/42) |
| Amex Mkt. Value | 291.84 | 289.13 | 290.32 | 293.27 | 382.45 (5/1) | 289.13 (17/10) | 397.03 (10/10/89) | 29.31 (9/12/72) |
| NASDAQ Composite | 334.03 | 326.78 | 325.44 | 329.54 | 469.60 (16/7) | 325.44 (16/10) | 485.73 (9/10/89) | 54.87 (31/10/72) |

| | Oct. 12 | Oct. 5 | Sep.28 | year ago (approx.) |
|---|---|---|---|---|
| Dow Industrial Div. Yield | 4.23 | 4.04 | 4.14 | 4.01 |

| | Oct. 17 | Oct.10 | Oct. 3 | year ago (approx.) |
|---|---|---|---|---|
| S & P Industrial div. yield | 3.59 | 3.56 | 3.42 | 3.20 |
| S & P Indl. P/E ratio | 14.15 | 14.28 | 14.89 | 13.00 |

### NEW YORK ACTIVE STOCKS

| Thursday | Stocks traded | Closing price | Change on day |
|---|---|---|---|
| Citicorp | 7,665,000 | [illegible] | [illegible] |
| Philip Morris | 4,197,900 | [illegible] | [illegible] |
| Puget Sound | 3,036,600 | [illegible] | [illegible] |
| Waste Man | 2,369,700 | [illegible] | [illegible] |
| Fannie Mae | 2,323,500 | [illegible] | [illegible] |
| Am Express | 2,321,900 | [illegible] | [illegible] |
| Baxter Intl. | 2,203,700 | [illegible] | + 1 |
| Gen Electric | 2,116,800 | [illegible] | [illegible] |
| Digital Equip | 2,113,800 | 51 | [illegible] |

### TRADING ACTIVITY

| † Volume (Millions) | Oct. 18 | Oct. 17 | Oct. 16 |
|---|---|---|---|
| New York | 205.266 | 161.260 | 151.500 |
| Amex | 12.375 | 10.076 | 11.139 |
| NASDAQ | 139.292 | 121.704 | 117.130 |
| Issues Traded | 1,977 | 1,965 | 1,977 |
| Rises | 1,118 | 658 | 472 |
| Falls | 441 | 832 | 1,072 |
| Unchanged | 418 | 475 | 433 |
| New Highs | 12 | 6 | 5 |
| New Lows | 141 | 254 | 278 |

### MONTREAL
Closing prices October 19

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto indices based 1975 and Montreal Portfolio 4/1/83. ‡ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

**Saturday October 13: Taiwan Weighted Price: [illegible]
‡ Subject to official recalculation. † Correction.
Base values of all indices are 100 except: Brussels SE, 1980 Overall [illegible] Industrials – 264.3 and Australia All Ordinary and Mining – 500 [illegible]

## TOKYO - Most Active Stocks
Friday 19 October 1990

| | Stocks Traded | Closing Prices | Change on day |
|---|---|---|---|
| Kobe Steel | 60.8m | 580 | +11 |
| Npn Steel Corp | 51.9m | 495 | +15 |
| S'tomo Mtl Ind | 44.7m | 510 | +15 |
| M'bishi Hvy | 31.2m | 763 | +20 |
| NKK | 25.5m | 470 | +18 |
| K'saki Steel | 24.2m | 485 | +16 |
| Sato Kogyo Co | 23.8m | 1,720 | +30 |
| Marubeni | 22.8m | 725 | +7 |
| Ishi'Har Hvyind | 20.2m | 783 | −3 |
| M'sui Eng&ShpB | 18.7m | 611 | +21 |

هكذا عن الأصل



# FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

## AUTHORISED UNIT TRUSTS

[illegible]

### Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

**INITIAL CHARGE:** [illegible]

**OFFER PRICE:** [illegible]

**BID PRICE:** [illegible]

**CANCELLATION PRICE:** [illegible]

**TIME:** [illegible]

**HISTORIC PRICING:** [illegible]

**FORWARD PRICING:** [illegible]

**SCHEME PARTICULARS AND REPORTS:** [illegible]

[illegible]

# FT MANAGED FUNDS SERVICE

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### Target Trust Mngrs Ltd (1600)F
Target Hse, Gatehouse Rd, Aylesbury, Bucks.
Admin: 0296 394000 Dealing: 0296 312156

| Unit Name | Init Chrge | Canc. Price | Bid Price | Offer Price | Yield Gr's | City-line |
|---|---|---|---|---|---|---|
| American Eagle | 5 | 56.51 | 56.51 | 60.34 | 1.28 | 41482 |
| Australia | 5 | 5.444 | 5.444 | 5.828 | 4.58 | 40483 |
| Equity | 5 | 139.4 | 139.4 | 149.7 | 5.14 | 41486 |
| Euro Spec Sits | 5 | 98.06 | 98.06 | 105.3 | 0.66 | 41487 |
| Financial | 5 | 24.38 | 24.54xd | 26.41 | 3.28 | 41488 |
| Global Opps Inc | 5 | 56.74 | 56.74xd | 61.08 | 0.00 | 41489 |
| Global Opps Acc | 5 | 57.16 | 57.16 | 61.54 | 0.00 | 41490 |
| Gold & Gen Inc | 5 | 35.23 | 35.23xd | 37.91 | 1.06 | 41491 |
| Gold & Gen Acc | 5 | 65.66 | 65.66 | 70.46 | 1.06 | 41492 |
| Income | 5 | 86.74 | 86.74xd | 93.44 | 6.64 | 41493 |
| Japan & General | 5 | 117.9 | 117.9 | 126.8 | 0.00 | 41494 |
| Preference Share | 5 | 17.35 | 17.67xd | 19.00 | 13.96 | 41497 |
| UK Capital | 5 | 76.62 | 76.62 | 82.34 | 4.24 | 41500 |
| World Income | 5 | 52.84 | 52.84xd | 56.78 | 6.22 | 41501 |
| Worldwide Capital | 5 | 146.3 | 146.3 | 157.4 | 3.47 | 41502 |

### Templeton Unit Trust Managers Ltd (1200)F
Atholl Crescent, Edinburgh EH3 8HA 031 228 3932

| Unit Name | Init Chrge | Canc. Price | Bid Price | Offer Price | Yield Gr's | City-line |
|---|---|---|---|---|---|---|
| Global Growth Acc | 6 | 89.72 | 90.48 | 96.77 | 3.81 | 46671 |
| Global Growth Inc | 6 | 86.20 | 86.93 | 92.98 | 3.81 | 46672 |
| Global Balanced Acc | 6 | 90.71 | 91.22 | 97.56 | 4.97 | 46669 |
| Global Balanced Inc | 6 | 84.51 | 84.98 | 90.89 | 4.97 | 46670 |
| Value Tst Acc | 6½ | 67.68 | 68.72 | 73.50 | 4.65 | 40842 |
| Value Tst Inc | 6½ | 65.99 | 67.01 | 71.67 | 4.65 | 46990 |
| Intl Fxd & Ot'ties Inc ♥ | 2 | 84.21 | 85.50 | 89.76 | 4.04 | 46989 |
| Intl Fxd & Ot'ties Acc ♥ | 2 | 81.26 | 82.50 | 86.62 | 4.04 | 41505 |

### Thornhill Unit Trust Managers Ltd (1200)F
28 St John's Sq, London EC1M 4AE 071-251 6767

| Unit Name | Init Chrge | Canc. Price | Bid Price | Offer Price | Yield Gr's | City-line |
|---|---|---|---|---|---|---|
| Capital | 5 | 45.08 | 45.41 | 48.30 | – | 47834 |
| Overseas | 5 | 38.75 | 38.92 | 41.40 | – | 43776 |

### Thornton Unit Managers Ltd (1000)F
33 Cavendish Sq., London W1M 0DH 071-493 7262
Dealing 071-493 8545

| Unit Name | Init Chrge | Canc. Price | Bid Price | Offer Price | Yield Gr's | City-line |
|---|---|---|---|---|---|---|
| American Opps | 5 | 39.36 | 39.36 | 41.98 | 0.27 | 41506 |
| (Accum Units) | 5 | 40.51 | 40.51 | 43.20 | 0.27 | 41507 |
| Cash | 0 | 50.65 | 50.65 | 50.65 | 13.70 | 45247 |
| Accum Units | 0 | 50.65 | 50.65 | 50.65 | 13.70 | 45248 |
| European Opps ‡ | 5 | 58.25 | 58.25 | 61.94 | 0.00 | 41508 |
| (Accum Units) ‡ | 5 | 58.57 | 58.57 | 62.28 | 0.00 | 46346 |
| Far Eastern Opps | 5 | 98.35 | 98.54 | 105.10 | 0.00 | 41509 |

### Murray Johnstone UT Mngmt
Murray Exempt Funds

| | Bid Price | Offer Price | Yield Grs | City-line |
|---|---|---|---|---|
| Amer Expt Oct 17 | 36.1 | 37.5 | 2.95 | 41064 |
| Euro Expt Oct 17 | 46.1 | 48.4 | 2.77 | 41065 |
| Fixed Int Ex Oct 17 | 43.4 | 44.5 | 11.31 | 46594 |
| Japan Expt Oct 17 | 41.4 | 43.1 | 0.81 | 41066 |
| Managed Ex Oct 18 | 36.6 | 38.0xd | 5.61 | 41067 |
| SE Asia Expt Oct 17 | 53.8 | 56.4xd | 3.56 | 41068 |
| Sm Cos Expt Oct 17 | 29.9 | 31.3 | 5.27 | 41069 |
| UK Eqty Ex Oct 17 | 36.5 | 38.3 | 5.37 | 41070 |

### Phillips & Drew Fund Management Ltd

| | Bid Price | Offer Price | Yield Grs | City-line |
|---|---|---|---|---|
| Small Co's Oct 3 | 597.8 | 630.6 | 5.35 | 41138 |
| Do Accum | 653.7 | 701.2 | 5.35 | 41139 |
| Int Expt Oct 17 | 141.9 | 144.0 | 4.86 | 41140 |
| UK Index Oct 3 | 959.0 | 975.6 | 5.25 | 46945 |
| Do Accum | 1009 | 1029 | 5.25 | 46946 |
| Convert Rte Oct 12 | 76.77 | 79.35 | 9.93 | 46938 |
| World ex UK Index Oct 15 | 626.1 | 634.8 | 2.23 | 47887 |
| Do Accum | 626.1 | 634.8 | 2.23 | 47888 |
| Japan Index Oct 15 | 517.5 | 525.0 | 0.62 | 47881 |
| Do Accum | 518.5 | 525.9 | 0.62 | 47882 |
| USA Index Oct 15 | 701.2 | 706.4 | 4.03 | 47885 |
| Do Accum | 711.1 | 716.3 | 4.03 | 47886 |
| Europe ex UK Index Oct 15 | 781.6 | 800.6 | 3.18 | 47879 |
| Do Accum | 793.8 | 813.0 | 3.18 | 47880 |
| Pacific ex Jap Index Oct 15 | 704.4 | 725.7 | 5.72 | 47883 |
| Do Accum | 748.8 | 771.3 | 5.59 | 47884 |
| Managed Exempt Oct 17 | 88.86 | 90.30 | 5.74 | 40338 |
| American Exempt Oct 17 | 92.33 | 93.90 | 4.59 | 40574 |
| European Exempt Oct 17 | 101.1 | 102.2 | 3.45 | 40628 |
| Japan Exempt Oct 17 | 108.2 | 109.5 | 1.26 | 40638 |
| Pacific Basin Oct 17 | 95.62 | 97.76 | 4.70 | 40636 |

### NM Rothschild Asset Management Ltd

| | Bid Price | Offer Price | Yield Grs | City-line |
|---|---|---|---|---|
| NC Managed | 51.7 | 55.1xd | 4.59 | 40339 |
| NC Property | 174.3 | 191.2 | – | 41285 |

### J. Rothschild Fund Managers Ltd

| | Bid Price | Offer Price | Yield Grs | City-line |
|---|---|---|---|---|
| Intl Exempt Accum | 1117.6 | 1186 | 4.23 | 44085 |

### Stewart Ivory & Co Ltd

| | Bid Price | Offer Price | Yield Grs | City-line |
|---|---|---|---|---|
| Saints PPP Sept 14 | 231.1 | 243.3 | 0.00 | 41432 |

Closed to new business

## INSURANCES

## OTHER UK UNIT TRUSTS

Continued on next page

# FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

National Provident Institution

Norwich Union Asset Management Ltd

Norwich Union Life Insurance Soc.

Pearl Assurance (Unit Funds) Ltd

Pioneer Mutual Insurance Co Ltd

Premium Life Assurance Co Ltd

Professional Life Assurance Co Ltd

Prolific Life & Pension Ltd

Property Equity & Life Ass. Co

Prosperity Life Assurance Ltd

Providence Capital Life Assc. Co Ltd

Provident Life Assoc Ltd

Provident Mutual Life Ass. Assn.

Prudential Assurance Co

Prudential Holborn Life Ltd

Prudential Pensions Limited

Regency Life Assurance Co

Reliance Mutual

Royal Heritage Life Assurance Ltd

Royal Life Insurance Ltd

Royal Liver Assurance

Save & Prosper Group

Scottish Amicable

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance Society

Scottish Provident Institution

Scottish Widows' Group

Skandia Life Assurance Co Ltd

Standard Life Assurance Company

Sun Alliance Group

Sun Life of Canada (UK) Ltd

Sun Life Unit Assurance Ltd

Swiss Life (UK) PLC

TSB Life Ltd

Target Life Assurance Co Ltd

Teachers' Assurance Company Ltd

Templeton Life Assurance Limited

Tunbridge Wells Equitable

Windsor Life Assur Co Ltd

Westwick Life Assurance Co Ltd

Zurich Life Assurance Co Ltd

## OFFSHORE INSURANCES

## MANAGEMENT SERVICES

| | Bid Price | Offer Price | Yield Gross | City-line |
|---|---|---|---|---|
| **J. D. Ward Financial Services Ltd** | | | | |
| 9 Kingsway, London, WC2 86XF | | | 01-836 4521 | |
| Target Mngd Bond | 184.2 | 193.9 | – | 44591 |
| Target Mngd Pension | 111.3 | 117.2 | – | 44592 |
| Albany Life Acc. | 164.9 | 173.5 | – | 41721 |
| Albany Pens Acc. | 203.8 | 214.5 | – | 41722 |

# OFFSHORE AND OVERSEAS

## BERMUDA (SIB RECOGNISED)

Orion Fund Limited

6 Front St., Hamilton, HM11, Bermuda 809 295 4500

## CANADA (SIB RECOGNISED)

Ivory & Sime Pembroke Inc

UK Agent, Ivory & Sime Plc, One Charlotte Square, Edinburgh EH2 4DZ 031 225 1357

*Dealing Thursdays-Forward Redemption Fee 1%

## GUERNSEY (SIB RECOGNISED)

Adams & Nevile Fd Mngmt (Guernsey) Ltd

PO Box 255 St Peter Port Guernsey CI 0481 710651

BBV-Hambros Asset Mngmt (Guernsey) Ltd

PO Box 255, St Peter Port, Guernsey CI 0481 710651

Cigna International Fund Mngrs (CI) Ltd

PO Box 208 St Peter Port Guernsey 0481 714315

Sterling Multi-yield Fund

Guinness Flight Fd Mngrs (Guernsey) Ltd

Hambros Fd Mgrs (CI) Ltd

Kleinwort Benson Intl Fd Mngrs Ltd

Lazard Fund Mngrs (Channel Islands) Ltd

Lloyds Intl Money Market Fund Ltd

M & G (Guernsey) Ltd

Prolific International Mngmt Ltd

Rothschild Asset Management (CI) Ltd

Royal Bank of Canada Funds

Schroder Mngmt Services (Guernsey) Ltd

## GUERNSEY (REGULATED)

Adams & Nevile Fund Mngmt (Guernsey) Ltd

Arab Bank Fund Managers (Guernsey) Ltd

# FT MANAGED FUNDS SERVICE

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| | Bid Price | Offer Price | Yield Gross | City-line |
|---|---|---|---|---|
| **Baring Int Fund Managers Guernsey Ltd** | | | | |
| Mngd Portfolio (Dllr). | $9.48 | 10.08 | - | 47318 |
| Mngd Portfolio (Stlg) | £3.57 | 3.82 | - | 47319 |
| **Baring Currency Fund Ltd** | | | | |
| US Dollar | | $14.90 | - | 44754 |
| Sterling | | £17.62 | - | 44755 |
| Deutschemark | | DM37.84 | - | 44756 |
| Japanese Yen | | Y3784 | - | 44757 |
| Managed | $42.05 | 44.15 | - | 44758 |
| **Dantrust Management (Guernsey) Ltd** | | | | |
| Dantrust Limited | DKr115.48 | 115.60 | - | 44873 |
| **Fipart-Consell Fund Mngrs (Guernsey) Ltd** | | | | |
| Mandeville G & B Fd | SFr7.79 | 7.85 | 1.91 | 46845 |
| **John Govett Mngmnt International Ltd** | | | | |
| Govett High Inc Gilt. | £0.3450 | 0.3678 | 14.14 | 45140 |
| Govett Far East Inv | $0.883 | 0.944 | - | 45141 |
| Energy & Resources | $0.666 | 0.712 | - | 45142 |
| **Hambros Fund Managers (CI) Ltd** | | | | |
| Japanese OTC | $8.9058 | 9.3511 | - | 43785 |
| **Havelet Throgmorton Mngmt Ltd** | | | | |
| Intl Inv-Stlg High Inc | £9.906 | 10.452 | 10.09 | 47649 |
| Intl Inv-Intl High Inc | $48.685 | 51.253 | 5.54 | 47648 |
| **Henderson Admin. (Guernsey)** | | | | |
| [illegible] | £0.908 | - | - | 45225 |
| Balanced Gwth $ Prtflo | $1.785 | 1.924 | - | 45226 |
| Balanced Gwth £ Prtflo | £1.030 | 1.107 | - | 45227 |
| Select Mkts $ Prtflo | $1.820 | 1.969 | - | 45228 |
| Inc & Gwth $ Prtflo | $1.656 | 1.759 | - | 45229 |
| High Income £ Prtflo | £0.590 | 0.625 | - | 45230 |
| **Hill Samuel Fd. Mngrs. (Guernsey) Ltd** | | | | |
| Guernsey T-t | 165.27 | 69.80 | 2.78 | 45254 |
| **Kleinwort Benson Intl Fd Mngrs Ltd** | | | | |
| KB Int. Ac. Bd Acc* | £8.568 | 9.030 | - | 45356 |
| KB Japan Fund | | $204.76 | - | 45357 |
| KB Sterling Asset | £29.30 | 29.30 | - | 45358 |
| *Offer price inclusive of maximum preliminary charge | | | | |
| **Kleinwort Benson Islamic Fd Mgmt Ltd** | | | | |
| Islamic Fund | $5.70 | 6.10 | 0.48 | 45366 |
| **Lazard Fund Managers (CI) Ltd** | | | | |
| Lazard Cap. Gwth Bond | $2804.70 | 2961.94 | 8.2 | 45385 |
| Lazard Cur Acc Fd £ | £18.54 | 18.55 | 14 | 45367 |
| Lazard Cur Acc Fd US$ | $14.58 | 14.59 | 7.1 | 45368 |
| Lazard Cur Acc Fd Y | Y3,790 | 3,800 | 7 | 45369 |
| Lazard Cur Acc Fd DM | DM51.11 | 51.12 | 7.2 | 45370 |
| Lazard Cur Acc Fd SF | SFr36.91 | 36.92 | 6.9 | 45371 |
| Lazard Cur Acc Fd FF | FFr157.24 | 157.25 | 8.7 | 45372 |
| Lazard Cur Acc Fd Man. | $15.45 | 16.24 | - | 45375 |
| Lazard D'fled Bnd (Inc) | $19.02 | 20.04 | 8.5 | 45386 |
| Lazard D'fled Bnd (Acc) | $24.41 | 25.72 | - | 45387 |
| Lazard European Fund | $44.79 | 47.45 | - | 45376 |
| Lazard Far East | $52.69 | 56.09 | - | 45377 |
| Lazard Global Equity | $25.32 | 26.92 | - | 45378 |
| Lazard Int Inc $ (Inc) | $1016.41 | 1071.66 | 8.376 | 45388 |
| Lazard Int $ Inc (Acc) | $2316.31 | 2442.18 | - | 45389 |
| Lazard Int Inc £ (Inc) | £9.08 | 9.58 | 11.076 | 46157 |
| Lazard Int Inc £ (Acc) | £11.78 | 12.43 | - | 46158 |
| Lazard Japan Fund | $49.95 | 53.40 | - | 45390 |
| Lazard Nth Am. | $18.66 | 19.85 | 1.0 | 45379 |
| Lazard Sel Port £ Cap | £11.85 | 12.77 | - | 45380 |
| Lazard Sel Port £ Inc | £9.28 | 9.79 | 12.2 | [illegible] |
| Lazard Sel Port $ Cap | $12.63 | 13.63 | - | 45382 |
| Lazard Sel Port $ Inc | $8.97 | 9.03 | 8 | 45383 |
| **M & G (Guernsey)** | | | | |
| Island Global Fd | 839.1 | 892.7 | 0.54 | 45419 |
| **Merrill Lynch Int Capital Mngt (Gsy) Ltd** | | | | |
| Bangkok NAV Oct 17 | | 361.84 | - | 42799 |
| [illegible] Portfolio NAV | | $9.82 | - | 46590 |
| **NM Financial Mgmt Intl Ltd** | | | | |
| Mngd Currency | £6.175 | 6.488 | 5.37 | 45498 |
| **NM Portfolio Selection Fund Ltd** | | | | |
| Conscience | £0.814 | 0.865 | 1.76 | 46250 |
| Far East Gwth | $1.146 | 1.219 | 0.00 | 46251 |
| Smaller Co's | £0.744 | 0.791 | 1.46 | 46252 |
| Special Sits. | £0.617 | 0.656 | 1.15 | 46253 |
| Intl Bond | $0.890 | 0.946 | 9.53 | 46254 |
| American Fund | $1.749 | 1.860 | 2.89 | 45502 |

| | Bid Price | Offer Price | Yield Gross | City-line |
|---|---|---|---|---|
| **Saracen (Isle of Man) Ltd** | | | | |
| Fergus Fd Oct 18 | | £11.82 | - | 47346 |
| UK Trend Oct 18 | | £8.41 | - | 47347 |
| **Target International (Isle of Man) Ltd** | | | | |
| IMC Offshore Fd | £7.75 | 8.38 | - | 46450 |
| Fleet Street Inv Fd | £7.04 | 7.49 | - | 46578 |
| Offshore Income Fd Ltd | £8.82 | 9.28 | - | 46580 |
| Nelson Miles W/W $/$ | £8.88 | 9.37 | - | 46581 |
| Tattersall Intl Assets | £6.32 | 6.52 | - | 46805 |
| **Tyndall International (Isle of Man) Ltd** | | | | |
| N L Gilt/Bulldog | 99.3 | - | - | 45804 |
| (Accum Shares) | 158.3 | 166.3 | - | 45805 |
| **Unibank Scandinavian Fund Ltd** | | | | |
| Scandinavia Fd. | 165.48 | 176.10 | 1.01 | 45223 |

## JERSEY (SIB RECOGNISED)

| Unit Name | Init Chrge | Canc. Price | Bid Price | Offer Price | Yield Gr's | City-line |
|---|---|---|---|---|---|---|
| **Barclays International Funds** | | | | | | |
| PO Box 152, St Helier, Jersey CI | | | | | | 0534 67888 |
| Australian Eq (Inc) | 5¼ | £0.742 | 0.742 | 0.797 | 2.5 | 44738 |
| Global Income (Inc) | 5¼ | £0.398 | 0.398 | 0.430 | 4.6 | 44730 |
| Global Resources R | 5¼ | £0.329 | 0.329 | 0.357 | 1.3 | 44742 |
| **Currency Fund** | | | | | | |
| Stg Premium Income | | £10.20 | | 10.21 | 13.3 | 47406 |
| **Capital House Fund Mgrs (CI) Ltd (0900)H** | | | | | | |
| PO Box 189, Capital Hse, Bath St., St. Helier, Jersey | | | | | | |
| Tel 0534 74689 (Dealing) | | | | | | 0534 75639 (Helpline) |
| Facsimile: 0534 79040 | | | | | | Telex 4192134 |
| **Capital House International Growth Funds Ltd ●** | | | | | | |
| Equities | | | | | | |
| UK Equity | 5 | £1.055 | 1.056 | 1.119 | - | 44810 |
| North American | 5 | $1.352 | 1.387 | 1.472 | - | 44811 |
| Japanese | 5 | $1.589 | 1.589 | 1.686 | - | 44812 |
| Pacific Basin | 5 | $2.128 | 2.128 | 2.259 | - | 44813 |
| Continental European | 5 | $2.400 | 2.400 | 2.547 | - | 44814 |
| Gold | 5 | $1.216 | 1.244 | 1.320 | - | 44815 |
| Bonds | | | | | | |
| Sterling Bond | 5 | £1.362 | 1.362 | 1.437 | - | 44816 |
| International Bond | 5 | $1.823 | 1.823 | 1.922 | - | 44817 |
| Currencies | | | | | | |
| £ Sterling | 0 | £24.54 | | 24.54 | 14.14 | 44818 |
| US$ | 0 | $18.80 | | 18.80 | 6.14 | 44819 |
| Japanese Yen | 0 | Y3,584 | | 3,584 | 6.18 | 44820 |
| D Marks | 0 | DM57.78 | | 57.78 | 6.69 | 44821 |

## JERSEY (REGULATED)(**)

## IRELAND (SIB RECOGNISED)

## ISLE OF MAN (SIB RECOGNISED)

## ISLE OF MAN (REGULATED)(**)

## LUXEMBOURG (SIB RECOGNISED)

## LUXEMBOURG (REGULATED)(**)

## SWITZERLAND (SIB RECOGNISED)

## OTHER OFFSHORE FUNDS

### MANAGED FUNDS NOTES

# CURRENCIES, MONEY AND CAPITAL MARKETS

## MONEY MARKETS

# Engineering a fall

ACTION BY the Reserve Bank of Australia has tended to put high yielding currencies under pressure. While the Bank of Canada has been buying the Canadian dollar, and the Bank of England has intervened on occasions to steady the pound, the Australian central bank has been selling its currency. In the course of last week the Australian dollar fell to 78.20 US cents from 81.80 cents, and appears set to move lower.

**UK clearing bank base lending rate 14 per cent from October 8, 1990**

Falling interest rates have also depressed the Australian dollar as the government now seems more concerned about the weak economy than pressure on inflation. The Reserve Bank has eased its monetary stance five times this year. Official cash rates are down to 13 per cent from 18 per cent, and both Mr Bob Hawke, the prime minister, and Mr Paul Keating, the treasurer, agree that more cuts are possible. This is in spite of Mr Keating's warning that rising oil prices could damage his forecast of an average 6.5 per cent inflation rate for 1990/91.

The Australian economy is divided between construction, retail and manufacturing, all of which are doing badly, and exports of mining and petroleum products which are supported by high prices and strong overseas demand.

GDP fell 0.9 per cent in the second quarter and a flat or negative figure is expected for the third quarter, due for release next month. Falling wool and grain prices mean that net farm income will fall 57 per cent in the year to June 1991, according to the Bureau of Agricultural and Resource Economics.

Mr Keating says GDP will grow 2 per cent in the year to June 1991 against 3.3 per cent growth in 1989/90, but this could be too optimistic, hence the recent moves to reduce interest rates and cut the value of the Australian dollar.

### £ IN NEW YORK

| Oct.19 | Close | Previous Close |
|---|---|---|
| £ Spot | 1.9590-1.9600 | 1.9695-1.9705 |
| 1 month | 0.97-0.95pm | 0.99-0.98pm |
| 3 months | 2.69-2.66pm | 2.66-2.63pm |
| 12 months | 8.54-8.44pm | 8.42-8.32pm |

Forward premiums and discounts apply to the US dollar

### CURRENCY MOVEMENTS

| Oct.19 | Bank of England Index | Morgan Guaranty Changes % |
|---|---|---|
| Sterling | 94.5 | -17.9 |
| U.S Dollar | 60.2 | -18.8 |
| Canadian Dollar | 99.5 | -1.7 |
| Austrian Schilling | 109.8 | +11.9 |
| Belgian Franc | 111.8 | -2.0 |

### POUND SPOT - FORWARD AGAINST THE POUND

| Oct 19 | Day's spread | Close | One month | % p.a. | Three months | % p.a. |
|---|---|---|---|---|---|---|
| US | 1.9550 - 1.9645 | 1.9590 - 1.9600 | 0.97-0.95cpm | 5.88 | 2.70-2.67pm | 5.48 |
| Canada | 2.2755 - 2.3045 | 2.2955 - 2.2965 | 0.31-0.21cpm | 1.36 | 0.87-0.73pm | 1.39 |
| Netherlands | 3.31¼ - 3.33¼ | 3.31¼ - 3.32¼ | 1½-1¼cpm | 5.65 | 4¾-4¼pm | 5.20 |
| Belgium | 60.55 - 60.95 | 60.60 - 60.70 | 28-23cpm | 5.05 | 80-69pm | 4.91 |
| Denmark | 11.22¾ - 11.26¼ | 11.24¼ - 11.25¼ | 4-3¼orepm | 3.87 | 10½-9¼pm | 3.47 |
| Ireland | 1.0940 - 1.1075 | 1.0995 - 1.1005 | 0.40-0.36cpm | 4.15 | 1.07-0.95pm | 3.67 |
| Germany | 2.94 - 2.95¼ | 2.94 - 2.95 | 1½-1¼pfpm | 5.86 | 3¾-3½pm | 5.18 |
| Portugal | 259.30 - 261.70 | 260.00 - 261.00 | ¾-¼cpm | 0.01 | ¾-¼pm | 0.01 |
| Spain | 183.30 - 185.70 | 184.90 - 185.20 | 60-100cdis | -5.19 | 180-300dis | -5.19 |
| Italy | 2204¼ - 2214¼ | 2203½ - 2205½ | 6½-5lirepm | 3.06 | 16¾-14pm | 2.74 |
| Norway | 11.44¾ - 11.49¾ | 11.46¾ - 11.47¾ | 3¾-2¼oredis | -2.88 | 7¼-6dis | -2.31 |
| France | 9.86 - 9.92½ | 9.86 - 9.87 | 3½-3¼cpm | 4.18 | 9½-9¼pm | 3.78 |
| Sweden | 10.93¾ - 10.97¾ | 10.95¾ - 10.96¾ | 2-3¾oredis | -2.87 | 5½-7dis | -2.28 |
| Japan | 245¼ - 248¼ | 246¼ - 247¼ | 1½-1¼ypm | 6.99 | 3¾-3½pm | 5.37 |
| Austria | 20.76 - 20.79½ | 20.76 - 20.79 | 9½-8½gropm | 5.23 | 25½-23½pm | 4.69 |
| Switzerland | 2.48¼ - 2.49½ | 2.48¾ - 2.49¾ | 1¾-1¼cpm | 6.33 | 3½-3¼pm | 5.53 |
| ECU | 1.4230 - 1.4280 | 1.4260 - 1.4270 | 0.51-0.48cpm | 4.16 | 1.35-1.29pm | 3.70 |

Commercial rates taken towards the end of London trading. Six-month forward dollar 5.03-4.98cpm 12 Month 8.63-8.53cpm

### DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

| Oct 19 | Day's spread | Close | One month | % p.a. | Three months | % p.a. |
|---|---|---|---|---|---|---|
| UK† | 1.9550 - 1.9645 | 1.9590 - 1.9600 | 0.97-0.95cpm | 5.88 | 2.70-2.67pm | 5.48 |
| Ireland† | 1.7750 - 1.7895 | 1.7835 - 1.7845 | 0.30-0.25cpm | 1.85 | 0.84-0.74pm | 1.77 |
| Canada | 1.1630 - 1.1750 | 1.1675 - 1.1685 | [illegible] | -4.52 | 1.19-1.24dis | -4.16 |
| Netherlands | 1.6875 - 1.7040 | 1.6930 - 1.6940 | par -0.02cpm | 0.07 | 0.11-0.15dis | -0.31 |
| Belgium | 30.80 - 31.15 | 30.90 - 31.00 | 1.00-3.00cdis | -0.78 | 2.00-7.00dis | -0.58 |
| Denmark | 5.71½ - 5.76¼ | 5.73¾ - 5.74¼ | 0.83-1.13oredis | -2.05 | 2.60-3.20dis | -2.02 |
| Germany | 1.4950 - 1.5120 | 1.5020 - 1.5030 | 0.01-0.03pfdis | -0.16 | 0.13-0.16dis | -0.39 |
| Portugal | 132.65 - 133.40 | 132.65 - 132.75 | 40-55cdis | -4.30 | 200-230dis | [illegible] |
| Spain | 94.10 - 94.95 | 94.55 - 94.65 | 46-50cdis | -6.09 | 138-148dis | -6.05 |
| Italy | [illegible] - 1132½ | 1125 - 1125½ | 2.40-2.90liredis | -2.83 | [illegible] | [illegible] |
| Norway | [illegible] - 5.87¾ | 5.85¾ - 5.86¾ | 1.25-1.60oredis | [illegible] | 4.45-4.95dis | -3.21 |
| France | 5.02 - 5.04¾ | 5.03¼ - 5.03¾ | 0.69-0.74cdis | -1.70 | 2.17-2.27dis | -1.76 |
| Sweden | 5.57½ - 5.61½ | 5.59¼ - 5.59¾ | 3.90-4.30cdis | -8.79 | 10.6-11.4dis | -7.86 |
| Japan | 125.05 - 127.45 | 125.85 - 125.95 | 0.03-0.01ypm | 0.19 | par -0.03pm | 0.05 |
| Austria | 10.58½ - 10.61¼ | 10.61¼ - 10.61¾ | 0.30-0.65grodis | -0.54 | 1.45-2.45dis | -0.73 |
| Switzerland | 1.2600 - 1.2745 | 1.2690 - 1.2700 | 0.05-0.03cpm | 0.38 | 0.06-0.03pm | 0.14 |
| ECU | 1.3695 - 1.3800 | 1.3750 - 1.3760 | 0.19-0.17cpm | [illegible] | 0.59-0.56pm | 1.67 |

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

### EXCHANGE CROSS RATES

| Oct.19 | £ | $ | DM | Yen | F Fr. | S Fr. | H Fl. | Lira | C $ | B Fr. |
|---|---|---|---|---|---|---|---|---|---|---|
| £ | 1 | 1.959 | 2.945 | [illegible] | 9.865 | 2.487 | 3.317 | [illegible] | 2.292 | 60.65 |
| $ | 0.510 | 1 | 1.503 | 125.9 | 5.036 | 1.270 | 1.693 | 1126 | 1.170 | 30.96 |
| DM | 0.340 | 0.665 | 1 | 83.77 | 3.350 | 6.044 | 1.126 | 748.7 | 0.778 | 20.59 |

### LONDON RECENT ISSUES

### FIXED INTEREST STOCKS

### RIGHTS OFFERS

### BANK OF ENGLAND TREASURY BILL TENDER

### WEEKLY CHANGE IN WORLD INTEREST RATES

### EURO-CURRENCY INTEREST RATES

### FT LONDON INTERBANK FIXING

### MONEY RATES

### LONDON MONEY RATES

Treasury Bills (sell); one-month 13¼ per cent; three months 13⅛ per cent; six months 12¾ per cent; Bank Bills (sell): one-month 13⅜ per cent; three months 13⅛ per cent; Treasury Bills; Average tender rate of discount 13.1897 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day October 8, 1990. Agreed rates for period Oct 24, 1990 to Nov 25, 1990, Scheme I: 15.78 p.c., Schemes II & III: 16.21 p.c. Reference rate for period Sept 1, 1990 to Sept 28, 1990, Scheme IV&V: 14.955 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 15 from October 1, 1990: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 10½ per cent; one-three months 12 per cent; three-six months 12 per cent; six-nine months 12 per cent; nine-twelve months 12 per cent; Under £100,000 11½ per cent from Oct 9, 1989. Deposits withdrawn for cash 5 per cent.

### CURRENCY RATES

### OTHER CURRENCIES

### CHICAGO

### PHILADELPHIA SE £/$ OPTIONS

£31,250 (cents per £1)

| Strike Price | Calls Nov | Calls Dec | Calls Mar | Calls Jun | Puts Nov | Puts Dec | Puts Mar | Puts Jun |
|---|---|---|---|---|---|---|---|---|
| 1.825 | 12.95 | 13.05 | 13.05 | 13.17 | 0.07 | 0.47 | 2.09 | 3.82 |
| 1.850 | 10.55 | 10.55 | 10.83 | 11.10 | 0.22 | 0.83 | 2.83 | 4.75 |
| 1.875 | 8.12 | 8.31 | 8.85 | 9.30 | 0.52 | 1.36 | 3.72 | 5.81 |
| 1.900 | 5.95 | 6.34 | 7.14 | 7.70 | 1.10 | 2.09 | 4.77 | 7.01 |
| 1.925 | 4.11 | 4.67 | 5.70 | 6.37 | 1.77 | 2.96 | 6.01 | 8.35 |
| 1.950 | 2.64 | 3.33 | 4.50 | 5.22 | 2.76 | 4.20 | 7.42 | 9.82 |
| 1.975 | 1.70 | 2.30 | 3.50 | 4.24 | 4.26 | 5.72 | 8.99 | 11.41 |

Previous day's open int: Calls 266,602 Puts 310,961 (All currencies)
Previous day's volume: Calls 13,405 Puts 24,277 (All currencies)

## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

| NATIONAL AND REGIONAL MARKETS | FRIDAY OCTOBER 19 1990 | | | | | | | | THURSDAY OCTOBER 18 1990 | | | | | DOLLAR INDEX | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Figures in parentheses show number of lines of stock | US Dollar Index | % chg ($) since 29/12/89 | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | Local % chg from 29/12/89 | Gross Div. Yield | US Dollar Index | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | 1990 High | 1990 Low | Year ago (approx) |
| Australia (78) | 126.70 | -16.3 | 95.87 | 100.84 | 98.98 | 107.79 | -15.4 | 7.20 | 123.82 | 93.96 | 97.76 | 97.24 | 106.85 | 158.31 | 123.49 | 149.45 |
| Austria (19) | 205.18 | +12.6 | 155.23 | 163.28 | 160.27 | 160.81 | +0.6 | 1.70 | 201.90 | 153.12 | 159.33 | 158.48 | 160.56 | 285.63 | 178.57 | 182.57 |
| Belgium (61) | 136.76 | -11.6 | 103.48 | 108.83 | 106.83 | 104.38 | -23.1 | 5.55 | 135.35 | 102.68 | 106.84 | 106.27 | 103.79 | 160.00 | 126.67 | 142.52 |
| Canada (120) | 123.25 | -19.0 | 93.25 | 98.08 | 96.27 | 104.24 | -18.3 | 3.83 | 121.52 | 92.20 | 95.93 | 95.42 | 103.43 | 153.61 | 121.24 | 150.70 |
| Denmark (33) | 259.27 | +7.0 | 196.17 | 206.34 | 202.53 | 202.41 | -6.6 | 1.47 | 254.36 | 193.00 | 200.83 | 199.75 | 199.44 | 277.82 | 234.05 | 206.07 |
| Finland (26) | 100.16 | -24.9 | 75.78 | 79.72 | 78.24 | 75.28 | -33.4 | 3.64 | 102.26 | 77.60 | 80.76 | 80.32 | 76.75 | 152.29 | 100.16 | 124.34 |
| France (123) | 141.38 | -9.4 | 106.97 | 112.51 | 110.43 | 111.67 | -21.1 | 3.69 | 141.14 | 107.09 | 111.42 | 110.83 | 112.08 | 168.85 | 124.98 | 134.94 |
| Germany (91) | 117.80 | -4.8 | 89.12 | 93.76 | 92.01 | 92.01 | -15.4 | 2.44 | 116.06 | 88.07 | 91.66 | 91.15 | 91.15 | 144.63 | 101.38 | 98.12 |
| Hong Kong (48) | 121.23 | +3.5 | 91.73 | 96.48 | 94.71 | 121.11 | +3.2 | 5.45 | 119.50 | 90.73 | 94.41 | 93.91 | 119.40 | 147.49 | 112.24 | 114.02 |
| Ireland (17) | 159.10 | -12.4 | 120.37 | 126.61 | 124.28 | 125.66 | -23.7 | 4.16 | 157.01 | 119.13 | 123.96 | 123.30 | 124.61 | 198.57 | 139.04 | 162.83 |
| Italy (91) | 85.85 | -12.8 | 64.95 | 68.32 | 67.06 | 72.15 | -22.6 | 3.41 | 83.62 | 63.44 | 66.01 | 65.66 | 70.75 | 109.26 | 80.87 | 89.22 |
| Japan (454) | 139.29 | -29.4 | 105.39 | 110.85 | 108.82 | 110.25 | -38.2 | 0.76 | 137.79 | 104.56 | 108.79 | 108.22 | 109.79 | 197.28 | 108.58 | 186.18 |
| Malaysia (35) | 189.93 | -17.1 | 143.70 | 151.14 | 148.36 | 197.39 | -17.1 | 3.11 | 186.69 | 141.65 | 147.39 | 146.60 | 193.70 | 250.89 | 182.96 | 199.90 |
| Mexico (13) | 519.89 | +59.7 | 393.36 | 413.75 | 406.11 | 1662.07 | +73.6 | 0.41 | 520.82 | 395.25 | 411.28 | 409.08 | 1661.95 | 561.41 | 324.53 | 323.63 |
| Netherland (41) | 135.27 | -6.0 | 102.35 | 107.65 | 105.67 | 104.55 | -16.7 | 5.47 | 134.78 | 102.28 | 106.41 | 105.85 | 104.73 | 149.03 | 127.56 | 128.20 |
| New Zealand (16) | 54.34 | -24.6 | 41.11 | 43.25 | 42.45 | 47.64 | -28.1 | 7.07 | 52.74 | 40.02 | 41.64 | 41.42 | 46.58 | 75.36 | 50.73 | 79.19 |
| Norway (27) | 240.13 | +20.2 | 181.68 | 191.11 | 187.58 | 190.83 | +6.7 | 7.82 | 234.69 | 178.07 | 185.29 | 184.30 | 186.98 | 276.79 | 202.34 | 177.98 |
| Singapore (25) | 157.46 | -11.1 | 119.13 | 125.31 | 123.00 | 124.26 | -19.9 | 3.44 | 153.19 | 116.23 | 120.95 | 120.30 | 120.37 | 209.24 | 147.24 | 158.54 |
| South Africa (60) | 160.25 | -18.5 | 121.25 | 127.53 | 125.18 | 129.26 | -15.0 | 4.42 | 156.27 | 118.57 | 123.38 | 122.72 | 128.66 | 251.39 | 161.50 | 145.14 |
| Spain (42) | 147.80 | -9.4 | 111.83 | 117.65 | 115.45 | 105.92 | -21.6 | 5.24 | 145.35 | 110.28 | 114.76 | 114.14 | 104.33 | 182.25 | 128.54 | 160.08 |
| Sweden (27) | 172.61 | -10.1 | 130.60 | 137.37 | 134.83 | 142.97 | -18.8 | 2.84 | 171.00 | 129.75 | 135.01 | 134.29 | 142.14 | 234.93 | 158.07 | 180.00 |
| Switzerland (67) | 95.13 | +1.1 | 71.98 | 75.71 | 74.32 | 74.87 | -16.8 | 2.86 | 93.89 | 71.24 | 74.13 | 73.74 | 74.13 | 109.77 | 85.00 | 88.93 |
| United Kingdom (300) | 163.80 | +3.2 | 123.94 | 130.35 | 127.94 | 123.94 | -15.1 | 5.61 | 162.94 | 123.63 | 128.63 | 127.94 | 123.63 | 178.18 | 139.87 | 141.71 |
| USA (533) | 125.76 | -12.1 | 95.15 | 100.09 | 98.24 | 125.76 | -12.1 | 3.90 | 123.20 | 93.48 | 97.28 | 96.76 | 123.20 | 148.85 | 119.06 | 141.06 |
| Europe (965) | 138.50 | -2.7 | 104.79 | 110.22 | 108.19 | 106.64 | -16.9 | 4.38 | 137.25 | 104.14 | 108.36 | 107.79 | 106.11 | 157.65 | 124.91 | 125.42 |
| Nordic (113) | 185.23 | -1.1 | 140.15 | 147.41 | 144.69 | 142.99 | -12.2 | 2.11 | 182.62 | 138.56 | 144.18 | 143.41 | 141.47 | 223.29 | 172.38 | 168.39 |
| Pacific Basin (656) | 137.86 | -28.4 | 104.31 | 109.72 | 107.69 | 110.80 | -36.7 | 1.13 | 136.29 | 103.41 | 107.61 | 107.03 | 108.78 | 192.75 | 107.82 | 181.99 |
| Euro-Pacific (1621) | 138.49 | -19.8 | 104.78 | 110.21 | 108.18 | 109.85 | -29.7 | 2.46 | 137.05 | 103.99 | 108.19 | 107.62 | 106.44 | 174.18 | 116.03 | 159.45 |
| North America (653) | 125.52 | -12.5 | 94.97 | 99.90 | 98.06 | 124.35 | -12.5 | 3.90 | 123.02 | 93.34 | 97.13 | 96.62 | 121.92 | 148.43 | 119.26 | 141.53 |
| Europe Ex. UK (665) | 122.53 | -6.5 | 92.70 | 97.53 | 95.73 | 98.30 | -18.1 | 3.49 | 121.10 | 91.89 | 95.63 | 95.12 | 95.65 | 145.62 | 109.94 | 114.44 |
| Pacific Ex. Japan (202) | 120.32 | -10.8 | 91.04 | 95.77 | 94.00 | 106.52 | -11.2 | 6.16 | 117.69 | 89.45 | 93.09 | 92.59 | 105.11 | 146.72 | 117.08 | 131.95 |
| World Ex. US (1814) | 138.41 | -19.7 | 104.72 | 110.16 | 108.12 | 110.28 | -29.1 | 2.52 | 136.94 | 103.90 | 108.12 | 107.54 | 108.89 | 173.77 | 117.12 | 159.11 |
| World Ex. UK (2047) | 129.95 | -19.3 | 98.33 | 103.43 | 101.52 | 114.30 | -24.7 | 2.64 | 128.09 | 97.14 | 101.09 | 100.55 | 112.40 | 162.00 | 115.37 | 152.58 |
| World Ex. So. Af. (2287) | 132.79 | -17.3 | 100.47 | 105.69 | 103.74 | 115.14 | -23.9 | 2.96 | 130.98 | 99.38 | 103.42 | 102.86 | 113.38 | 161.84 | 118.04 | 151.64 |
| World Ex. Japan (1893) | 130.99 | -8.7 | 99.11 | 104.26 | 102.34 | 117.41 | -14.2 | 4.18 | 128.96 | 97.85 | 101.83 | 101.29 | 115.87 | 151.59 | 124.31 | 135.28 |
| The World Index (2347) | 132.96 | -17.3 | 100.60 | 105.82 | 103.87 | 115.24 | -23.8 | 2.97 | 131.13 | 99.49 | 103.53 | 102.98 | 113.50 | 162.05 | 118.33 | 151.60 |

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).



Constituent changes: Addition: Den Norske Bank (Free)(Norway). Deletion: Elektrisk Bureau (Norway). Name change: Avery Intl. to Avery Dennison (US).

## MONEY MARKET FUNDS

### Money Market Trust Funds

### Money Market Bank Accounts

NOTES—Gross rate to those exempt from composite rate of tax. Net actual rate after deduction of CRT. Gr Equiv CAR. Gross equivalent to basic rate taxpayers—compounded annual rate. Int. Cr. frequency interest credited

## FINANCIAL TIMES STOCK INDICES

| | Oct 19 | Oct 18 | Oct 17 | Oct 16 | Oct 15 | Oct 12 | 1990 High | 1990 Low | Since Compilation High | Since Compilation Low |
|---|---|---|---|---|---|---|---|---|---|---|
| Government Secs. | 79.10 | 79.43 | 79.76 | 79.51 | 79.73 | 79.97 | 84.20 | 74.13 | 127.4 | 49.18 |
| Fixed Interest | 88.87 | 88.87 | 88.90 | 88.85 | 88.93 | 88.99 | 92.91 | 83.80 | 105.4 | 50.53 |
| Ordinary | 1621.5 | 1618.1 | 1600.8 | 1613.3 | 1627.2 | 1622.0 | 1968.3 | 1510.4 | 2008.6 | 49.4 |
| Gold Mines | 169.7 | 168.8 | 163.9 | 163.2 | 167.9 | 170.9 | 378.5 | 163.2 | 734.7 | 43.5 |
| FT-Act All Share | 1010.12 | 1007.82 | 1001.31 | 1007.88 | 1014.56 | 1013.31 | 1226.83 | 962.09 | 1238.57 | 61.92 |
| FT-SE 100 | 2089.0 | 2082.6 | 2068.0 | 2083.6 | 2101.9 | 2100.4 | 2463.7 | 1990.2 | 2463.7 | 986.9 |

# LONDON SHARE SERVICE

### BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

### BRITISH FUNDS—Contd

### INT. BANK AND O'SEAS

### CORPORATION LOANS

### COMMONWEALTH & AFRICAN LOANS

### LOANS

Building Societies

Public Board and Ind.

### FOREIGN BONDS & RAILS

### AMERICANS

### AMERICANS—Contd

### CANADIANS

Continued on next page

# LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

## BANKS, HP & LEASING

| Market Cap. £m | Stock | Price | Week % change | Y'ld Gr's | Last xd | Dividends Paid | City-line |
|---|---|---|---|---|---|---|---|
| 2,396.0 | ABN Amro Fl5 | 49½ | 2.0 | 8.9 | 4.9 | Aug May | 1567 |
| 1,566.0 | ANZ SA1 | 162 | -1.2 | 11.0 | 12.6 | Feb July | 1698 |
| 2,829.6 | Abbey National 10p | 216 | -5.5 | 3.5 | 6.8 | Apr Oct | 5411 |
| 962.2 | Allied Irish Ord | 148 | 5.0 | 6.1 | 29.5 | Dec July | 1354 |
| 31.2 | Anglo Irish | 52 | 8.3 | 8.1 | 30.4 | Jan July | 1355 |
| 123.2 | Ansbacher (H.) 1p | 64 | ..... | 5.1 | 12.3 | April | 1624 |
| 755.5 | Bancaire Cie Fr100 | £44¼ | 14.8 | 3.0 | 9.5 | May Mar | 2202 |
| 3,578.4 | Banco Bilbao Viz | £14¼ | 8.3 | 5.4 | 9.12 | Dec June | – |
| 485.7 | Bank Ireland Ir£1 | 145 | 3.6 | 9.1 | 29.5 | July Dec | 1360 |
| 134.4 | Bank Leumi | £19½ | ..... | – | – | – | 1740 |
| 25.0 | Bank Leumi (U.K.) | 350 | ..... | 5.7 | 6.8 | Mar Sep | 1740 |
| 827.5 | Bank Scotland | 109xd | ..... | 5.6 | 8.10 | Dec Jul | 1742 |
| 98.5 | Do. 9¼pc Irrd Pf | 98½ | -0.5 | 13.1 | 30.4 | May Nov | 1462 |
| 12.5 | Bank of Wales | 39xd | ..... | 9.6 | 8.10 | Nov Jun | 1743 |
| 5,661.3 | Barclays £1 | 357 | 2.3 | 7.3 | 20.8 | Oct May | 1754 |
| 5.90 | Benchmark 20p | 11 | -8.3 | 9.1 | 9.4 | May Oct | 1802 |
| 38.3 | Brown Shipley £1 | 240 | -2.0 | 6.7 | 11.6 | Jan Aug | 1983 |
| 78.2 | Cater Allen £1 | 330 | 1.5 | 9.9 | 25.6 | Jan. Aug | 2081 |
| 10.2 | Chancery | 49 | -5.8 | 24.5 | 25.6 | Jan July | 2102 |
| 352.6 | Commerzbk DM10 | £15¾ | 0.2 | 4.0 | 27.5 | May | 1046 |
| 20,431.6 | Dai Ichi KBk Y50 | 729 | 12.8 | 0.5 | 4.7 | June | 3221 |
| 6,780.5 | Deutsche Bk DM50 | £212¼ | 3.8 | 2.2 | 17.5 | May | 2345 |
| 160.4 | Espirito Santo | £15 | 0.8 | 2.5 | – | June | 5187 |
| 303.1 | First Nat. Fin. 10p | 188 | -2.6 | 9.2 | 9.7 | Mar Aug | 2571 |
| 45.1 | FNFC 6.3pc Cv. Pf | 93 | -5.1 | 9.0 | 25.6 | July | 2570 |
| [illegible] | Fuji Bank Y50 | 812 | 18.7 | 0.4 | 4.7 | Dec June | 1084 |
| 105.6 | Gerrard & National | 277 | -6.7 | 9.3 | 29.5 | June Dec. | 2666 |
| 60.9 | Guinness Mahon 10p | 94 | -5.1 | 3.0 | 14.5 | Jul Feb | 5074 |
| 359.6 | Hambros 20p | 212 | -5.8 | 7.2 | 25.6 | Jan Sep | 2812 |
| 141.0 | Do. 7.5pc Cv Pf | 94 | ..... | 10.6 | 10.9 | Apr Oct | 4388 |
| 2,023.5 | HK & Shang HK$2.50 | 31½ | ..... | 8.1 | 14.9 | October | – |
| 19.8 | Joseph (Leo) £1 | 378 | ..... | 5.6 | 6.8 | Jan Sept | 3060 |
| 28.3 | King & Shaxson 20p | 116 | -1.7 | 11.8 | 14.5 | Dec June | 3088 |
| 356.5 | Kleinwort Benson Grp | 201 | -4.4 | 7.6 | 20.8 | May Oct | 3102 |
| 5,942.3 | Kyowa Bank Y50 | 406 | 17.0 | 0.7 | 29.6 | Mar Jun Sept | 3049 |
| 3,422.4 | Lloyds £1 | 276 | -1.8 | 6.4 | 6.8 | Oct May | 3171 |
| 28.0 | Lon. Scot. Bank 10p | 47 | ..... | 6.8 | 25.6 | Mar Aug | 4651 |
| 1,519.0 | Midland £1 | 194 | 1.0 | 12.4 | 6.8 | May Oct | 3380 |
| 29,176.6 | Mitsubishi Bank Y50 | £10¼ | ..... | 0.3 | 4.7 | June Dec. | 5290 |
| 8,267.4 | Mitsubishi Tst & Bk Y50 | £6 | 34.3 | 0.6 | – | June Dec | 4775 |
| 20,615.5 | Mitsui Taiyo Kobe Y50 | £6¼ | 25.0 | 0.5 | – | Sept Mar | – |
| 6,383.5 | Mitsui Tst & Bk Y50 | 533 | 20.9 | 0.6 | 29.6 | Sept Mar June | 5388 |
| 2,797.2 | Nat Aust. Bk A$1 | 247 | 1.2 | 8.2 | 21.12 | July Jan | 3456 |
| 4,115.7 | NatWest £1 | 255 | 1.2 | 8.7 | 8.10 | Oct May | 3463 |
| 65.0 | Ottoman Bank | £138 | 13.0 | 8.5 | 16.5 | May | – |
| 11.6 | Rea Bros. Group | 30 | -9.1 | 2.2 | 10.9 | May Oct | 3785 |
| 1,155.2 | Royal Bk. Scotland | 153 | 2.7 | 6.3 | 14.5 | Mar Jul | 3874 |
| 4,177.6 | Sanwa Bank Y50 | 411 | 9.9 | 0.7 | 29.6 | Sept Mar Jun | 5286 |
| 27,306.4 | Sanwa Bank Y50 | 682 | 19.0 | 0.5 | 11.12 | June Dec. | 5108 |
| 335.5 | Schroders £1 | 648xd | 1.6 | 2.6 | 8.10 | Nov May | 3939 |
| 57.4 | Do. £1 N/V | 443xd | 1.1 | 3.8 | 8.10 | May Nov | 3941 |
| 1,108.8 | Sec. Pacific $10 | £10¼ | 6.2 | 11.9 | 26.7 | Fb My Ag Nv | 3985 |
| 611.8 | Standard Chartd. £1 | 262 | -4.0 | 17.8 | 20.8 | May Oct | 4094 |
| [illegible] | Sumitomo Bank Y50 | £7 | 30.2 | 0.4 | 29.6 | June | 3079 |
| 7,138.6 | Sumitomo Tst & Bk Y50 | £5¾ | 25.7 | 0.6 | 29.6 | June Dec | 4918 |
| 2,074.1 | TSB | 138 | 2.2 | 5.6 | 6.8 | Oct Mar | 4320 |
| 20.1 | TSB Bank Ch'nel Is'l | 137 | -0.7 | 4.9 | 11.6 | Feb Aug | 4319 |
| 9,699.4 | Tokai Bank Y50 | £5 | 9.6 | 0.9 | 29.6 | June | 5369 |
| 5,116.9 | Toyo Tst & Bk Y50 | 629 | 21.0 | 0.5 | 29.6 | Sept Mar Jun | 1393 |
| 100.7 | Union Discount £1 | 537 | -0.2 | 8.2 | 23.7 | Mar Sept | 4353 |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### Hire Purchase, Leasing, etc.

[illegible]

## BEERS, WINES & SPIRITS

[illegible]

## BUILDING, TIMBER, ROADS

[illegible]

## BUILDING, TIMBER, ROADS – Contd

[illegible]

## CHEMICALS, PLASTICS

[illegible]

## DRAPERY AND STORES

[illegible]

## ELECTRICALS

[illegible]

## ELECTRICALS – Contd

[illegible]

## ENGINEERING

[illegible]

## ENGINEERING – Contd

| Price | Week % change | Y'ld Gr's | Last xd | Dividends Paid | City-line |
|---|---|---|---|---|---|
| 250 | ..... | 4.1 | 10.9 | Nov Jun | 4453 |
| 34 | -1.4 | 8.2 | 9.7 | Jul Feb | 4457 |
| 102 | ..... | 4.6 | 11.6 | July Feb | 4468 |
| 122 | 5.2 | 5.5 | 29.5 | Jan July | 4484 |
| 51 | -7.3 | 7.8 | 6.8 | Apr Oct | 4485 |
| 38 | -10.0 | 0.4 | 9.7 | Feb Oct | 4533 |

## FOOD, GROCERIES, ETC

[illegible]

## HOTELS AND CATERERS

[illegible]

## INDUSTRIALS (Miscel.)

[illegible]

## INDUSTRIALS (Miscel.) – Contd

[illegible]

## INDUSTRIALS (Miscel.) – Contd.

[illegible]

## INSURANCES

[illegible]

## LEISURE

[illegible]

## MOTORS, AIRCRAFT TRADES

[illegible]

### Commercial Vehicles

[illegible]

هكذا من الأصل



# LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

## MOTORS, AIRCRAFT TRADES – Contd

### Components

[illegible]

### Garages and Distributors

[illegible]

## NEWSPAPERS, PUBLISHERS

[illegible]

## PAPER, PRINTING, ADVERTISING

[illegible]

## PROPERTY

[illegible]

## PROPERTY – Contd

[illegible]

## SHOES AND LEATHER

[illegible]

## SOUTH AFRICANS

[illegible]

## TEXTILES

[illegible]

## TOBACCOS

[illegible]

## TRANSPORT

[illegible]

## INVESTMENT TRUST

[illegible]

## INVESTMENT TRUST – Contd

[illegible]

## INVESTMENT TRUST – Contd

[illegible]

Net asset values supplied by County NatWest Wood Mackenzie

## FINANCE, LAND, ETC

[illegible]

## WATER

[illegible]

## OIL AND GAS

[illegible]

## OIL AND GAS – Contd

[illegible]

## OVERSEAS TRADERS

[illegible]

## PLANTATIONS

### Rubbers, Palm Oil

[illegible]

### Teas

[illegible]

## MINES

### Central Rand

[illegible]

### Eastern Rand

[illegible]

### Far West Rand

[illegible]

### O.F.S.

[illegible]

### Diamond and Platinum

[illegible]

### Central African

[illegible]

### Finance

[illegible]

### Australians

[illegible]

## MINES – Contd

### Tins

[illegible]

### Miscellaneous

[illegible]

## THIRD MARKET

| Market Cap £m | Stock | | Price | Week % change | Yld Gr's | P/E | Dividends Paid | City Line |
|---|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | | | | | | | |
| 0.66 | Moray Firth 1p | y | 34½ | -6.3 | – | – | – | [illegible] |
| 1.36 | Navan Resources | y | 25 | ..... | – | – | – | 1185 |
| 2.02 | Ovoca Gold IR 2p | y | 37 | 3 6 | – | – | – | 1470 |
| 3.06 | Oxford Virology 5p | y | 22 | ..... | – | – | – | 2712 |
| 13.2 | Poddington 5p | | 776 | ..... | – | – | – | 3117 |
| 3.90 | Ramsden's (Harry) | y | 68 | -13.3 | 9.2 | 9.7 | January | 2011 |
| 4.52 | Rennaminster 5p | y | 27 | ..... | ‡ | – | Mar Oct | 5228 |
| 1.26 | Sempernova | y | 9 | ..... | – | – | – | 1645 |
| 3.40 | Sleepy Kids 5p | y | 17 | ..... | – | – | – | 5068 |
| 0.38 | Systems Connections | y | 2 | ..... | – | – | – | 5341 |
| 5.38 | Tomorrows Leisure 20p | y | 68 | -4.0 | 2.8 | 24.9 | October | 4248 |
| 1.17 | UPL Group 10p | y | 29 | ..... | – | 22.5 | Dec. July | 4362 |
| 3.47 | Video Magic Lrd. 1p | y | 21 | ..... | – | 26.1 | – | 5071 |
| 2.40 | Vista Ents 5p | y | 2½ | ..... | – | – | – | 3994 |
| 7.83 | Wilton Group 1p | y | 14 | -12.5 | – | – | – | 3628 |

### NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

● "Tap Stock"
‡ Interim since reduced, passed or deferred
‡‡ Tax-free to non-residents on application
♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
‡‡ Not officially listed.
‡ Price at time of suspension
‡ Not comparable
‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
★ Cover does not allow for shares which may also rank for dividend at a future date.
‡ No par value

B.Fr. Belgian Francs. Fr. French Francs ‡‡ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents. e Redemption yield. f Flat yield. k Kenya. C Canadian. E Minimum tender price.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

## REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

| | | | | | | |
|---|---|---|---|---|---|---|
| Craig & Rose £1 | y | 709 | ..... | Carrol (P.J.) | 192 | ..... |
| Finlay Pkg. 5p | y | 48 | -7.0 | Hall (R. & H.) | 168 | ..... |
| Holt (Jos) 25p | y | 1385 | ..... | Helton Hldgs. | 52 | 6.1 |

### IRISH

| | | | | | |
|---|---|---|---|---|---|
| Cap. 8½% Ln. 1991 | £98½ | 0.3 | IRG | 198 | ..... |
| 9pc Cap Ln. 1996 | £94½ | 0.5 | United Drug | 148 | 7.7 |
| Fin 13% 97/02 | £110½ | 0.7 | | | |
| Arnotts | 198 | ..... | | | |

## TRADITIONAL OPTIONS

### 3-month call rates

| Industrials | p |
|---|---|
| Allied-Lyons | 40 |
| Amstrad | 6 |
| Astec (BSR) | 4½ |
| BAT | 45 |
| BOC Grp | 39 |
| BTR | 29 |
| Barclays | 27 |
| Blue Circle | 17 |
| Boots | 21 |
| Bowaters | 41 |
| Brit Aerospace | 45 |
| British Steel | 13 |
| Brit. Telecom | 22 |
| Cadburys | 26 |
| Charter Cons. | 37 |
| Comm Union | 37 |
| Courtaulds | 25 |
| Eurotunnel | 40 |
| FKI | 5½ |
| FNFC | 20 |
| Gen Accident | 37 |
| GEC | 14 |
| Glaxo | 57 |
| Grand Met. | 44 |
| Guardian | 15 |
| GKN | 27 |
| Hanson | 16 |
| Hawker Sidd. | 39 |
| ICI | 70 |
| Ladbroke | 22 |
| Legal & Gen. | 29½ |
| Lex Service | 28 |
| Lloyds Bank | 21 |
| Lucas Inds. | 11 |
| Marks & Spencer | 18 |
| Midland Bk. | 29 |
| Nat West Bk. | 18 |
| P & O Dfd. | 42 |
| Polly Peck | 40 |
| Racal Elect. | 14 |
| RHM | 23 |
| Rank Org Ord | 49 |
| Reed Intnl. | 38 |
| STC | 19½ |
| Sears | 8½ |
| SmKl. Beecham A | 44 |
| TI | 37 |
| TSB | 10 |
| Tesco | 19 |
| Thorn EMI | 49 |
| Trust Houses | 21 |
| T&N | 14 |
| Unilever | 50 |
| Vickers | 19 |
| Wellcome | 38 |

| Property | |
|---|---|
| Brit Land | 24 |
| Control Secs | 3½ |
| Land Securities | 42 |
| MEPC | 38 |
| Mountleigh | 11 |

| Oils | |
|---|---|
| Aviva Petms | 3½ |
| Brit Petroleum | 28 |
| Burmah Castrol | 44 |
| Conroy Petlm | 20 |
| Gaelic Res. | 2 |
| Premier | 8½ |
| Shell | 40 |
| Tuskar Res. | 6 |
| Ultramar | 32 |

| Mines | |
|---|---|
| Lonrho | 21 |
| RTZ | 40 |

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1050 per annum for each security.

## FT Share Service

The following changes have been made to the FT Share Information Service:

**Additions:** Levercrest (Section: Leisure).

TR European Growth Tst. (Ord. & Ptg. Sub. shs.) (Investment Trusts).

**Deletions:** ADG Group (Industrials).

Bexbuild Devs. (Property).

Corton Beach (Industrials).

Courtwell Grp. (Industrials).

Mecca Leisure (Leisure).

Parkway (Paper, Printing, Advertising).

Tozer, Kemsley & Millbourn (Overseas Traders).

*4pm prices October 19*

# NEW YORK STOCK EXCHANGE COMPOSITE PRICES

| 12 Month High | Low | Stock | Div. | Yld. | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| | | – A – A – A – | | | | | | | | |
| 37½ | 9½ | AAR | .48 | 4.2 | 7 | 807 | 12⅛ | 11⅞ | 11⅞ | – ⅛ |
| 9¼ | 7⅛ | ACM n | 1.01 | 13. | | 283 | 8⅛ | 8 | 8 | – ⅛ |
| 11⅝ | 8¼ | ACMIn | 1.26 | [illegible] | | 948 | 9⅞ | 9⅝ | 9⅞ | + ⅛ |
| 9¼ | 6½ | ACM M | n1.01 | 14. | | 1058 | 7⅛ | 7 | 7⅛ | + ⅛ |
| 12⅛ | 10 | ACMMM | 1.50 | 13. | | 86 | 11⅝ | 11½ | 11⅝ | |
| 11½ | 8⅝ | ACM Sc | 1.26 | 13. | | 1520 | 9⅝ | 9⅜ | 9½ | + ⅛ |
| 9⅝ | 7¼ | ACMSp | 1.01 | 13 | | 475 | 8 | 7⅞ | 8 | + ⅛ |
| 24⅝ | 14⅝ | AL Lab | .16 | .9 | 16 | 44 | 18 | 17⅞ | 18 | + ½ |
| 5¼ | 1 | AM Intl | | | | 577 | 1⅛ | 1 | 1 | |
| 22¼ | 5⅛ | AM In pf | 2 | 40. | | 220 | 5¼ | d 5 | 5 | – ½ |
| 85⅛ | 39¾ | AMR | | | 11 | 12018 | 49⅞ | 48 | 48 | – ⅞ |
| 4⅛ | 2 | ARX | | | 7 | 30 | 2¼ | 2⅛ | 2⅛ | – ⅛ |
| 72¼ | 38¼ | ASA | 3a | 7.1 | | 583 | 42⅞ | 41⅝ | 42 | + ⅛ |
| 45⅝ | 31 | AbtLab | s.84 | 1.9 | 29 | 10777 | 43⅝ | 43 | 43¼ | + ½ |
| 14 | 11¼ | Abitibi | g .50 | | | 71 | 11⅝ | 11⅜ | 11½ | + ⅛ |
| 11⅝ | 4⅝ | AcmeC | .40 | 7.3 | 7 | 166 | 5½ | 5 | 5½ | + ⅝ |
| 9⅝ | 5⅜ | AcmeE | .32 | 5.7 | 7 | 2 | 5⅝ | 5⅝ | 5⅝ | |
| 32¼ | 18⅞ | Acuson | s | | 22 | 1057 | 26¾ | 26¼ | 26½ | + ½ |
| 16⅞ | 14⅛ | AdaEx | 2.08e | 14. | | 45 | 15⅛ | 15 | 15⅛ | + ⅛ |
| 15⅛ | 10 | Adobe | | | | 371 | 11 | 10⅝ | 10⅞ | + ½ |
| 20¼ | 17½ | Adob pf | 1.84 | 11. | | x16 | 17⅛ | d17 | 17 | – ⅛ |
| 21⅝ | 19⅝ | Adob pf | 2.40 | 12. | | x10 | 20 | 20 | 20 | – ⅛ |
| 11⅞ | 3⅝ | AMD | | | | 2739 | 4⅛ | 3¾ | 4 | + ⅛ |
| 32⅛ | 16 | AMD pf | 3 | 17. | | 8 | 17½ | 17⅜ | 17½ | + ½ |
| 9¼ | 1¾ | Advest | .16 | 6.7 | 30 | 40 | 2⅝ | 2¼ | 2⅜ | + ⅛ |
| 62½ | 29⅝ | AetnLf | 2.76 | 8.5 | 5 | 8048 | 33⅛ | 32⅛ | 32⅞ | + ⅞ |
| 13¼ | 7½ | AflPb | .24 | 3.1 | | 649 | 7⅞ | d 7⅛ | 7⅞ | |
| 23⅛ | 11⅛ | Ahmans | .88 | 7.2 | 5 | 2545 | 12⅛ | 12⅛ | 12⅛ | |
| 3⅝ | 1⅞ | Aileen | | | 8 | 25 | 3¼ | 3⅛ | 3¼ | |
| 61 | 42⅞ | AirPrd | 1.44 | 3.0 | 12 | 731 | 47½ | 46⅜ | 47½ | + ½ |
| 27 | 13½ | AirFrt | s .30 | 1.9 | 8 | 563 | 16¼ | 15⅛ | 15⅞ | +1⅛ |
| 24½ | 11¼ | Airgas | | | 21 | 69 | 11¾ | 11½ | 11¾ | + ¼ |
| 20⅝ | 15½ | AirleaseL | 2.52 | 16. | 8 | 61 | 16⅛ | 16 | 16 | + ¼ |
| 10¼ | 9 | AlaP | dpf.87 | 9.3 | | 17 | 9⅜ | 9¼ | 9⅜ | + ⅛ |
| 103½ | 94¼ | AlaP pf | 9.44 | 9.5 | | z3320 | 99⅞ | 96¼ | 99⅞ | +3⅞ |
| 26 | 13⅞ | AlskAir | .20 | 1.1 | 9 | 2177 | 18¼ | 17⅝ | 17¾ | + ¼ |
| 20¼ | 8⅛ | Albnyin | .35 | 3.8 | 8 | 1326 | 9¼ | d 9 | 9¼ | |
| 27⅞ | 19¼ | Alberto | s.20 | .8 | 19 | 162 | 24⅛ | 23½ | 23⅝ | – ⅛ |
| 22¼ | 15⅛ | AlCulA | s .20 | 1.2 | 14 | 288 | 17¼ | 16¾ | 17¼ | + ¼ |
| 37⅞ | 24⅛ | Albtsn | s .48 | 1.5 | 20 | 2126 | 32⅛ | 31 | 31⅞ | +1¼ |
| 24½ | 18⅜ | Alcan | 1.12 | 5.8 | 9 | 3725 | 19½ | 19¼ | 19⅜ | + ¼ |
| 37⅞ | 27⅝ | AlcoStd | .84 | 2.7 | 12 | 857 | 31⅛ | 30⅝ | 31¼ | + ⅞ |
| 34 | 16⅛ | AlexAlx | 1 | 5.4 | 17 | 290 | 18½ | 17⅞ | 18½ | +1 |
| 59⅞ | 22⅛ | Alexdr | | | | 171 | 22⅛ | d22⅝ | 22¼ | – ⅛ |
| 97 | 75¼ | AllegCp | 1.72t | 2.3 | 7 | 36 | 75⅞ | d75½ | 75⅞ | – ½ |
| 34⅛ | 18⅛ | AlgLud | s.88 | 4.6 | 6 | 646 | 19⅜ | 19 | 19¼ | + ¼ |
| 42½ | 34 | AllgPw | 3.16 | 8.7 | 10 | 284 | 36⅝ | 36⅛ | 36¼ | – ⅛ |
| 20 | 9 | AllenG | | | 9 | 55 | 11 | 10¼ | 10¼ | – ⅜ |
| 21⅞ | 11½ | Allen pf | 1.75 | 12. | | 493 | 15 | 14⅛ | 14⅞ | – ⅛ |
| 19⅝ | 12⅛ | Alergn | .28e | 1.9 | 19 | 596 | 13⅝ | 13¼ | 13½ | + ⅜ |
| 17⅛ | 11½ | AlnCap | 1.70a | 13. | 13 | 190 | 12⅞ | 12⅛ | 12⅞ | + ⅞ |
| 17 | 8⅝ | AllGIE | n | | | 181 | 10¼ | 10¼ | 10¼ | + ⅛ |
| 12⅛ | 7⅛ | AllNEu | n | | | 881 | 9¼ | 9⅛ | 9¼ | + ⅛ |
| 16¼ | 10¾ | AllTch | n | | | 190 | 12⅛ | 11½ | 11½ | – ½ |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

Continued on Page 33

## NYSE COMPOSITE PRICES

| 12 Month High | Low | Stock | Div. | Yld. | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| Continued from previous Page | | | | | | | | | | |
| 18½ | 9½ | OkReilly | .28a | 2.7 | 8 | 27 | 10¼ | 10⅛ | 10¼ | + ⅛ |
| | | - R - R - R - | | | | | | | | |
| 11 | 9⅞ | RAC In | 1.28 | 12. | | 184 | 10⅛ | 10⅝ | 10⅜ | + ⅛ |
| 4⅞ | 2 | RAC | .65e | 16. | 7 | 361 | 4⅝ | 4⅜ | 4⅜ | - ⅛ |
| 20¼ | 17⅛ | RJR pf | | | | 3964 | 17⅞ | 17⅝ | 17⅞ | + ⅛ |
| 7⅛ | 3⅜ | RJR Nb wt | | | | 1050 | 4⅝ | 3⅞ | 4⅜ | + ⅝ |
| 13 | 4⅝ | RLI Tr | .10 | 2.0 | | 504 | 5⅛ | 5 | 5 | |
| 17⅝ | 6⅝ | ROC Fd.30e | | 5.2 | | 920 | 7⅜ | 7 | 7¼ | + ½ |
| 9⅛ | 5⅝ | RPC | | | 19 | 1 | 8⅝ | 8⅝ | 8⅝ | |
| 6⅛ | 4⅝ | RPS | .58e | 10. | 6 | 127 | 5⅝ | 5⅜ | 5⅜ | - ⅛ |
| 41⅛ | 30 | RTZ n | 1.69e | 5.2 | | 6 | 32⅛ | 32½ | 32½ | + ⅛ |
| 67⅛ | 42⅝ | Racal | .60e | 1.2 | 25 | 822 | 50⅜ | 49 | 49⅝ | +1⅛ |
| 107⅝ | 77⅛ | RalsPur | 1.85 | 1.7 | 15 | 3878 | u107½ | 106 | 107⅛ | - ⅛ |
| 8⅝ | 5⅝ | RangrO | .08e | .8 | 19 | 186 | 7⅝ | 7⅛ | 7⅝ | + ⅛ |
| 35½ | 15⅛ | Raycm | .32 | 1.7 | | 1140 | 19 | 18½ | 19 | + ⅝ |
| 22⅝ | 14⅛ | RJamF | .24 | 1.6 | 5 | 7 | 15 | 15 | 15 | - ⅛ |
| 26½ | 18⅛ | Raynr | 3.60 | 19. | 5 | 41 | 19⅛ | 19⅛ | 19⅛ | |
| 85 | 57⅛ | Raythn | 2.40 | 3.6 | 8 | 1785 | 67⅝ | 65¼ | 67⅝ | +1⅛ |
| 27⅝ | 21 | RdrDg n | .60 | 2.5 | 16 | 1085 | 24⅛ | 23½ | 24⅛ | + ⅜ |
| 5 | 1 | RdgBte | | | | 126 | 1⅞ | 1½ | 1⅞ | + ⅛ |
| 16⅛ | 11⅝ | REIT | 1.42 | 12. | 9 | 30 | 12 | 11⅞ | 12 | |
| 7⅛ | 4⅝ | RecnEq | | | | 54 | 5⅛ | 5 | 5⅛ | + ⅛ |
| 20 | 8⅝ | Reebok | .30 | 2.9 | 6 | 3858 | 10⅝ | 9⅝ | 10¼ | + ⅛ |
| 12⅛ | 1⅝ | Reece | .05j | | | 47 | 2½ | 2¼ | 2½ | + ⅛ |
| ½ | 5-32 | Regal | | | | 484 | ⅛ | 13-64 | 13-64 | -3-64 |
| 15 | 6⅛ | ReichTg | 1.02 | 16. | 5 | 3 | 6⅛ | 6⅛ | 6⅛ | + ⅛ |
| 6⅛ | 4⅛ | RelGrp | .32 | 6.7 | | 5 | 4⅝ | 4⅛ | 4⅛ | - ⅛ |
| 30⅝ | 19⅛ | Repsol | n.85e | 3.6 | | 88 | 23⅛ | 23⅛ | 23⅛ | + ⅛ |
| 5 | 3⅜ | RepGyp | .19t | 6.2 | 91 | 45 | 3⅛ | 3⅛ | 3⅛ | + ⅛ |
| 52⅝ | 37¼ | RepNY | 1.32 | 3.3 | 6 | 359 | 40¼ | 39⅝ | 40 | + ⅛ |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

- S - S - S -

- T - T - T -

- U - U - U -

- V - V - V -

- W - W - W -

- X - Y - Z -

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. [illegible]

## AMEX COMPOSITE PRICES

4pm prices October 19

| Stock | Div. | P/E | Sls 100s | High | Low | Close | Chng |
|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

## NASDAQ NATIONAL MARKET

4pm prices October 19

| Stock | Div. | Sales 100s | High | Low | Last | Chng |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

*MONDAY INTERVIEW*

# Head and shoulders above junk

## Ted Forstmann, the New York *leveraged buy-out specialist,* speaks to **Peter Martin**

It's hard to say "I told you so" gracefully, harder still if you're a New Yorker. Mr Ted Forstmann, head of the New York leveraged buy-out firm Forstmann Little, can't quite pull it off.

He struggles to avoid mentioning his great rivals, Henry Kravis and George Roberts, and the problems afflicting *some of their junk-bond* financed buy-outs. Somehow, though, they keep creeping into the conversation, under various guises – at one point he calls them, accurately but unflatteringly, "the short guys".

Still, Mr Forstmann has a lot *to say "I told you so"* about. For him, the 1990s are the era of "real capital".

"We have always had the capital," he says, "but we are now able to think in terms of putting it to work without having to compete with people who don't have real capital."

That competition, in his carefully unstated view, came from Mr Kravis and Mr Roberts. In the 1980s, their firm Kohlberg Kravis Roberts *(KKR) built a huge empire of* buy-outs, on ever more elaborate structures of borrowing. Balanced on tiny slivers of equity were mountains of debt – from the banks and, increasingly, as time went on, from high-yielding junk bonds.

Mr Forstmann never issued junk. What had started as prudence became an article of faith, and, ultimately, a running comic theme of the book Barbarians at the Gate, which chronicles KKR's grandest, *most elaborately financed deal,* the $20bn buy-out of RJR Nabisco.

In the book, Mr Forstmann is portrayed as an unsuccessful rival, delivering a string of long-winded sermons about the evils of junk.

Not surprisingly, he resents the portrayal. "The facts were pretty accurate" in the book, he says, but its judgments are based on a fallacy: "You have winners and losers, and the winner is the guy who gets the *deal, and he is somehow* smarter, stronger and more courageous that the rest."

That, he says, is "an absurd comment". It was beyond the authors' "ability to comprehend that someone might not want to buy the thing" at the price that was asked. And what the authors didn't realise, he says, "was that I had a fear as a citizen of America, not as head of Forstmann Little. If I could own RJR with Ford Motor thrown in by using junk bonds I would not do it because I don't believe in it."

*That's all history now.* KKR has run into problems at a few of its buy-outs, and the jury is still out at RJR Nabisco itself, though the deal has recently been refinanced. Mr Forstmann, free from such concerns, is, he says, very busy. So far this year he has pulled off two big leveraged buy-outs, the acquisition of Gulfstream from Chrysler for $825m and of General Instrument from its share*holders for $1.6bn.*

These were a welcome throw-back to the good old days: no crowd of eager bidders pushing up the price, and no midnight calls from "a hundred Harvard MBAs". Roughly half the finance in each case came from Forstmann Little, the rest from the banks. Forstmann Little's share, provided by its coterie of blue-chip investors, came in the form of a small slice of equity, and a big chunk of low-yielding subordinated debt.

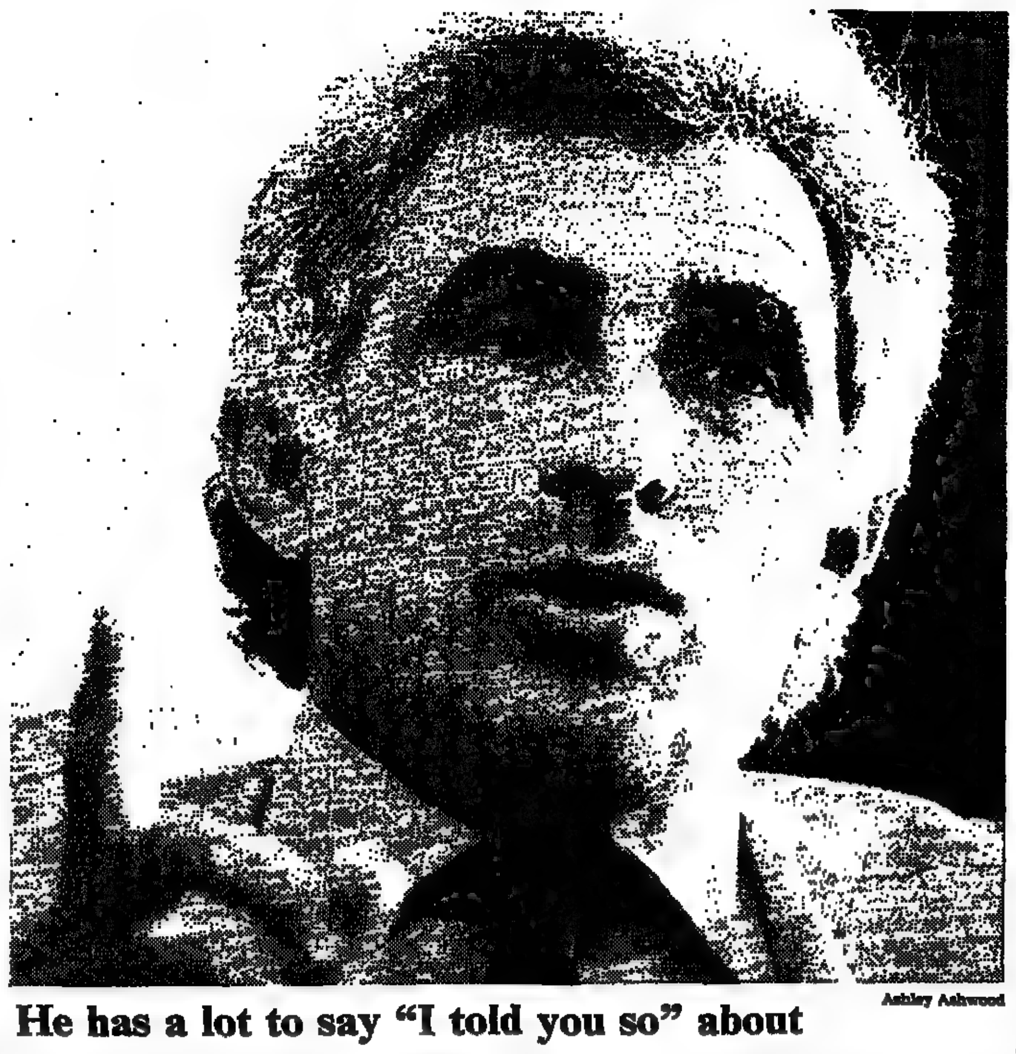
That pool of subordinated debt, provided by the same people who also supply the equity, is Forstmann Little's distinctive contribution to the art of the buy-out. Because his investors provide both pools of *capital, their total compound* return is somewhere over 50 per cent a year on average, says Mr Forstmann, between the 85 per cent annual average return on his equity fund and the 32 per cent of his other fund, which combines debt with equity.

Those returns were themselves partly the result of the junk bond years, however. Mr Forstmann accepts that one reason why he was able to sell off parts or all of his buy-outs *for such handsome prices was* that the going rate for corporate acquisitions had been pushed up by hysterical buyers financed by junk bonds.

Now, with junk-bond-financed purchasers vanished, won't those lavish disposal prices be harder to achieve? If junk bonds themselves were merely a symptom of the addiction to leverage and debt in the US, won't Mr Forstmann's own operations also prove vulnerable to recession combined with *high interest rates?*

No, he says, because in its 16 acquisitions his firm has focused on three things: the right company; the right capital structure; and the right management, with the right incentives and participation.

The right capital structure stems from Forstmann Little's subordinated debt fund. The management questions are resolved by finding someone in the buy-out company with talent and commitment – for *example "a good guy down in* the bowels, a couple of levels down, who was great but he was not political so he was nowhere" – and by making sure that the buy-out managers are significant enough investors in their own right to have the same interests as the Forstmann group.



Ashley Ashwood

### He has a lot to say "I told you so" about

That leaves finding the right company: "The criteria really amount to finding companies with predictable cash flow – that's the bottom line."

He looks for companies with market dominance, however caused. His favourite example *is the Dr Pepper soft drink* company: "Nobody could make anything that tasted so foul as *Dr Pepper, OK? So I bought it."*

At the time, Dr Pepper owned another soft drink brand, Canada Dry. "I said, we're going to sell Canada Dry for the following reason: you never in your life heard a guy walk into a bar and ask for a Canada Dry, never. But in the south, about two times in five a guy will walk into a McDonald's or something and he'll ask for Dr Pepper. Now that is a franchise, which is another way of having market dominance."

Not everyone liked the purchase, however. "I got a call from the chairman of one of our biggest investors saying 'I don't know you and I don't want to know you' – the *chairman* this guy is – 'but I just heard that we have bought into Dr Pepper and I have only one interest: I just want our money out.'

"He said he was going to sue me. I said *don't* do that because you're going to look like an idiot. We tripled the earnings and sold the business and made nine and a half times our *money in two and a half* years."

At first, Mr Forstmann bought what a colleague called "funny companies", like Dr Pepper or the Topps baseball card company or an embroidery company or an ice manufacturer. Then came "the middle stage. We bought these conglomerates that had to be fixed up: Lear Siegler, Midland Ross, Cybron, 12 divisions from ITT. It's a long process: you cut overhead, improve businesses, *do this, do that. More of the* value came from dumping the bad ones, and then you had to grow the good ones."

Now, he says gleefully, he is in "the last phase, which is by far the most interesting and the most fun. We are able to buy companies of world class status and influence." Gulfstream has 60 per cent of worldwide sales of big corporate jets; General Instrument has a strong position in the world market for cable televi*sion gadgets. Others, he hopes,* will follow. But "if the right kind of company doesn't come along I'm not buying the wrong kind for a lower price." He is obviously optimistic that such companies can be found: Forstmann Little is reported to be trying to raise another $1.5bn subordinated debt fund for more acquisitions.

As for the gloomy economic outlook: "There's the good news and the bad news: your business is going to be badly *affected but if you're the dominant* guy then all the marginal guys have bigger problems than you do." And the absence of junk-bond financed domestic purchasers will be offset by the presence *of big foreign firms* buying into the US.

Mr Forstmann says he started the firm in 1978 "because I'm unemployable". The operation is a tiny one. "We went from assets of zero with three people 12 years ago to $10bn in assets with six partners and associates now." The firm now a total staff of about 12.

He still wants to ram home the message about the 1980s – sometimes in ways, say his admirers in New York, that unfairly single out KKR for criticism. "I'm paranoid about being mistaken for the Kravises," he says out of the blue at one point. At another, he pulls out a copy of his favourite speech, delivered earlier this year. It is headed "The Disenfranchisement of Character in *the Financial Markets of the* 1980s and 1990s." Or, to put it another way: "I told you so."

**PERSONAL FILE**

**1940** Born in Greenwich, Connecticut. Educated at *Yale and Columbia Universities.*

**1965-69** Practised as lawyer.

**1969-73** Worked at small investment banks.

**1974-77** Independent dealmaker.

**1978** Founded Forstmann Little.

**1980** First buy-out: Kincaid Furniture ($12m).

**1983** Buy-outs of Dr Pepper (soft drinks) and Topps (baseball cards).

**1985** Dr Pepper sold.

**1989** *Protagonist in battle for* RJR Nabisco.

**1990** Buy-outs of Gulfstream ($875m) and General Instrument ($1.2bn).

# Wanted: public goods

When I saw last week's press headlines declaring that Sir James Goldsmith was giving up business for nature, my first instinct was to feel rather sorry for nature and wonder how long the reprieve for business would last. My second was to think that this might be a forward indicator. Sir James, after all, is a man who extracted a knighthood from Labour before revealing rabidly right-wing views just in time for the Reagan-Thatcher era. Is the great tycoon's decision to head off in a green direction a sign of the times? Is it the same kind of signal that the voters of Eastbourne have just sent to Margaret Thatcher? And should we conclude that the era of gung-ho free-marketeering is finally at an end?

When Mrs Thatcher first came to power in 1979 a return to policies rooted in market economics had considerable political saleability. The electorate had become unhappily inured to high taxation, high inflation, low growth and relative economic decline. Against that background the prime minister's assault on the overweening power of producer cartels, her insistence on individual responsibility and her respect for the taxpayer's hard-earned funds understandably struck a chord with voters.

*The trouble with such poli*cies is that their life is, by definition, finite. Today there are few corners of the establishment which have not felt the sharp edge of the prime minister's handbag and she has been obliged to move from those cartels and interest groups which are unpopular with voters, such as the unions, to those which are respected by most people other than Tory politicians, like the BBC. There was never more than a limited *number of state corporations* to privatise, and the political dividends from despatching the residue are scarcely huge.

Worse still, that fashionable policy nostrum of the 1980s, financial deregulation, made a king-sized contribution to the credit boom and subsequent inflation that have now been followed by interest rates that find no favour in Eastbourne or anywhere else. Who said the British middle class were gluttons for punishment? Most *important of all, what the elec*torate appears to want most in the 1990s cannot be readily

**JOHN PLENDER**

delivered by the likes of Sir James Goldsmith. People want public goods, which tend to be best provided by, or in combination with, the state: health care, education, transport and, of course, environmental protection.

What is clear, as the main political parties reveal their electoral platforms, is that established parties of the conventional right and left both have enormous credibility problems in satisfying this electoral imperative.

*Even if the public feels* that it has been badly served by self-regarding and inadequately accountable experts in the teaching and medical professions, it does not share Mrs Thatcher's instinctive equation of public sector/bad, private sector/good. It merely wants a better service and, as countless opinion polls indicate, would be quite happy to pay for it in higher taxation.

It would probably also prefer higher investment by British Rail to privatisation of British Rail. As for the environment, Mrs Thatcher's conversion to greenery has always looked only marginally more plausible than her commitment to the exchange rate mechanism of the European Monetary System. Small wonder, as she trumpets the merits of education vouchers at Prime Minister's Questions, that the public feels the Tories are talking to themselves, much as Labour did in the run-up to the last election.

There is no reason to doubt Labour's commitment to the provision of public goods. The problem for the electorate is the suspicion that it will also provide too much in the way of increases in public sector pay and that the producer cartels will reassert their power and influence.

Which might, at a pinch, explain one aspect of the appeal of the Liberal Democrats at last week's by-election. The old-style Liberals invariably saw their best ideas plundered by Conservative and Labour alike. Today the Liberal Democrats have taken what they want of Thatcherism, tossed in the public goods, and are offering the package without the embarrassment of historical baggage.

The underlying policy dilemma is not, incidentally, confined to Britain. It is shared by most of the English-speaking countries as they confront the problems of the 1990s – above all by *President Bush,* as he confronts an exceptionally worrying deterioration in the economy at a time of international tension.

The risk of credit contraction in the US now looks very real; and monetary policy offers no remedy. To relax, as Keynes put it, would be tantamount to pushing on a piece of string. Yet if a Keynesian liquidity trap is in the offing, the fiscal policy lever is unavailable because of past budgetary incompetence, exacerbated by ill-judged deregulation in the *savings* and loan industry.

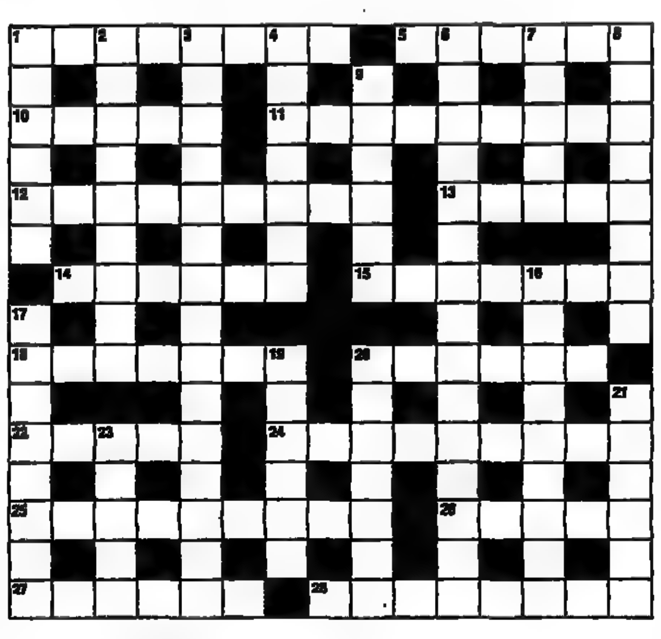
If the electorate comes to see the case for old-fashioned, counter-cyclical public spending over the next year or two, it cannot expect satisfaction. The existing budget deficit is already too big and the economy is out of control.

Once again, it is the Japanese, rather than the Anglo-Saxons with their creaking 19th-century capitalist model, who seem to have found the most impressive answers. Public goods such as relative freedom from crime are delivered there at minimal cost; the bill for highly effective education represents a surprisingly low percentage of GNP; and life expectancy now outstrips that in Britain. They have even succeeded in excluding predators like Sir James Goldsmith from the Tokyo stock market. What a shame we don't understand how they pull off the trick.

**JOTTER PAD**

## CROSSWORD

No.7,373 Set by DANTE



**ACROSS**

1 One with minor responsibilities in a newspaper (8)
5 Made of iron, this strange object of worship (6)
10 Scot returns to service in Scotland (5)
11 Kick up a fuss, as Adam and Eve had to do (6,4)
12 A fetching breed of dog (9)
13 All the players express mild disapproval before taking it back (5)
14 Produced in a dramatic way (6)
15 A number keeping secret get a telling off (7)
18 Healey's unusual feature! (3-4)
20 Light ship for light control (6)
22 It has a small part in a big *picture* (5)
24 Can anyone disguise such vexation? (9)
25 Dates may be seen around here (3,3,3)
26 Hibernian flag on hospital (5)
27 Still rings back, nevertheless (4,2)
28 Praise for catching someone out (4,4)

**DOWN**

1 Note the appearance of upper-class people (6)
2 Philosopher is alert to change (9)
3 Fellow trippers (7,8)
4 A driver went astray, but completed the course (7)
6 Current expense account (11,4)
7 Spilling a pint – clumsy! (5)
8 Draperies not approved by most modern societies (8)
9 Sour sort of critic (6)
16 In money I've a reason for working (9)
17 Exist on next to nothing, being humble (8)
19 Cast ashore? That's rough (6)
20 Auntie's sort of curvaceous (7)
21 A way of acting (6)
23 Scandinavian weeds uprooted (5)

**The solution to last Saturday's prize puzzle will be published with names of winners on Saturday November 3.**



# Corporate persons and the law

**JUSTINIAN**

THE ABRUPT end to the Zeebrugge trial resolved the protracted predicament of the shipping company and its seven employees who faced criminal proceedings. But it has left unresolved many problems surrounding the issue of corporate manslaughter.

The acquittals by the jury on the judge's direction, even before the prosecution had called all its potential witnesses, was an emphatic rejection of criminal justice to deal with some types of indisputably blameworthy conduct. After all, Mr Justice Sheen's official inquiry report of June 1987 had apportioned blame for *the disaster of March 9, 1987* between the master, the first officer and the assistant bosun for "serious negligence" in the discharge of their duties and the executives of the shipping company for underlying or cardinal faults in the corporate body "infected with the disease of sloppiness".

But Mr Justice Sheen had concluded that no offence under the statutory criminal law had been committed. That left open the possibility that the common law offence of manslaughter had been committed. From the start, the use of this uncertain piece of criminal law was bound to pose problems for any prosecution.

To put the Zeebrugge trial into the context of both corporate and individual liability, the reason for the prosecution's failure was the combined effect of the very stiff burden of proof required in a criminal trial and the standard of proof necessary to bring home a conviction for involuntary manslaughter. Mr Justice Turner, the trial judge, had ruled that *nothing short of recklessness* was required to support a conviction. The alternative test for criminal liability, argued for by *the prosecution,* was the lower standard of gross negligence.

The fact that in 1990 there remains any uncertainty about the ingredients of the law of homicide is an indictment of the state of English criminal law. The crimes of murder and of manslaughter, almost uniquely, remain uncodified. Cases defining the ingredients of homicide that have occupied the appellate courts over the last decade exemplify the urgent need for parliamentary enactment. This is only one of many vexed questions about criminal responsibility of corporate bodies.

At the beginning of the trial, Mr Justice Turner had upheld the contention that the company as a legal entity could *commit manslaughter. There is* considerable doubt about whether a company can commit the offence of homicide, and the judge readily acknowledged the force of the rival argument. The problem is that his ruling in favour of criminal responsibility will remain unchallenged for the immediate future. The case, however, presents a golden opportunity for a review of the law.

The idea of the company as a person has long been used to justify the conviction of limited liability companies for criminal offences of all types, on the ground that the acts and omissions of the company's principal officers and employees may be attributed in law to the company itself. For regulatory offences the concept causes no difficulties. It is for the more serious offences which involve the element of fault that the problem becomes acute.

Fifty years ago, the Court of Criminal Appeal rejected any reasoning that only directors or managers could be guilty of offences involving dishonesty. That court drew the notional line at offences such as perjury or bigamy which it said a company could not commit. The law also excluded the crime of murder for which the mandatory penalty was then death but is now life imprisonment. A company cannot not be incarcerated and there is no alternative punishment available. For manslaughter, by contrast, life imprisonment is only the maximum penalty: hence a monetary penalty could be imposed.

In broad terms, therefore, the courts have supported the conceptual separation of the company and *its shareholders* and officers to its logical conclusion, except where to do so would be to condone a blatant fraud or evasion of the law.

Insofar as a criminal statute is directed at the prevention of activities in which a company may engage, there is no reason why the company, in addition to those persons involved in it, should not be liable for penal sanctions. It is the company as such which benefits from any financial profit or saving which results either from dishonesty committed through it or from any illegality.

The Law Commission's recent draft Criminal Code for England and Wales adopts a similarly pragmatic approach. Vicarious liability for offences *of strict liability may attach to* corporations as to other persons. The attribution to a corporation *of criminal liability* for an offence involving fault is made by identifying the corporation with its "directing mind and will" – *that is,* the human agents whose acts and states of mind are, in law, its acts and states of mind. The provision in Clause 30 of the draft Criminal Code makes a corporation liable if "one of its controlling officers, acting within the scope of his office and with the fault required, is concerned in the offence".

The strangely uncertain rationale of the criminal law in relation to corporate liability has naturally led commentators to seek better remedies for the victims of corporate irresponsibility in the civil law. While administrators and legislators have allowed the responsible method of preventing disasters such as occurred at Zeebrugge one thought occurs to me. Anyone criticised for his conduct in the report of a public inquiry should at least be made liable to pay the cost, or part of it, of that inquiry, over and above the cost to him of his own legal representation.

**Louis Blom-Cooper QC**

A FINANCIAL TIMES SERIES: Part 8

# EUROPEAN FINANCE AND INVESTMENT

# FRANCE

SECTION III

The French financial sector has been transformed by five years of reforms which have seen some areas, such as payments systems, becoming the envy of many countries. There have been some failures and in some areas growth has slowed but the torch has been passed from the government and taken up by the banks and financial institutions, **George Graham** reports

## Creating a modern system

FIVE years of reforms have left France with a completely modernised financial system. Monopolies have been broken, barriers demolished, and new structures created which, in areas such as settlements, payment systems or governments, are the envy of many countries.

After this overhaul of the central structures, the torch has passed from the finance ministry to the banks and financial institutions. Many have adapted to the modernised architecture of the financial system. Now they are beginning to set a seal on the past by moving away from their grandiose headquarters on Baron Haussmann's 19th century boulevards in central Paris towards new buildings among the towers of La Défense, to the west, or near the new finance ministry at Bercy, in the east.

The French government has set about the business of financial reform with an intellectual thoroughness, as finance ministry officials have scoured the world to borrow and improve on the structures of other financial centres.

Mr Pierre Bérégovoy, the socialist finance minister, is widely acknowledged to have been a guiding force behind this reform, with Mr Edouard Balladur, the conservative who replaced him from 1986 to 1988, contributing a series of privatisations, an overhaul of the stock exchange and the abolition of price controls.

"We wanted real international competition, not a cartelised domestic market with an offshore compartment. We had a hard and intense period when we had to smash the systems. Now we are mostly watching to make sure that the cartels are not recreated," says one adviser to Mr Bérégovoy.

In the area of credit, as well as in the money and capital markets, the smashing of systems has ended, and new structures are mostly in place. One milestone will be passed on November 16 when Relit, the stock exchange's fully automated settlements system, comes into operation, years ahead of London.

The stock exchange trading system has won supporters: the Paris bourse has been selected by Poland to create the new Warsaw stock market.

On the savings side, some of the old monopolies still remain: the tax-free Livret savings accounts marketed exclusively by the Caisses d'Epargne savings banks and the Crédit Mutuel, or the Crédit Agricole's right to hold notaries' deposits.

Yet deregulation has carved a swathe through old habits. Money market funds, for example, have developed to an extent unmatched elsewhere in Europe, encouraged by a favourable tax treatment – and by the inadequate interest rates paid on deposit accounts. With FFr771bn invested in these funds by both individual investors and small companies placing their cash surpluses, they are so successful that they frighten the bankers who manage them.

"It is a problem which we will have to treat one day, because we have installed in the French system a product which exists nowhere else and which cannibalises the money market on one side and the securities markets on the other," complains Mr Daniel Lebègue, joint managing director of Banque Nationale de Paris (BNP), the largest French state-owned bank.

These complaints leave the finance ministry largely unruffled. If the level of competition in the savings market comes closer to that prevailing in the loans market – where virtually any homebuyer can borrow at cheaper rates than the French state – so much the better, officials say.

Some bankers share this feeling. If the cost of funds moves closer to the money market rate, it will penalise most heavily those who have been living off the fat of their captive, unremunerated deposits. Those with the best controls and the lightest structures will benefit. Some argue that the degree of competition has given the French banking system a headstart over many of its rivals, most notably in Germany, by sharpening its claws for the single European market.

The government would be especially pleased if higher rates of remuneration helped increase the level of savings, thereby contributing to its macroeconomic policy goals. The Plan d'Epargne Populaire (PEP), a tax-sheltered investment plan introduced last year with the aim of encouraging long-term savings, has achieved considerable success, bringing in FFr79.5bn in the first seven months of this year.

Many bankers, however, feel that there is rather too much competition in the market place, especially as the playing field is tilted by the remaining privileges and monopolies enjoyed by the Caisses d'Epargne, the Creddit Mutuel and the Crédit Agricole.

Their worries have been masked for a while by the race for growth that followed the ending of credit controls in 1987. Expanding volumes concealed the fact that lending margins have been narrowing by an average of half a percentage point a year.

This year, volume growth has slowed down, and although margins have also flattened off, banks have noticed a simultaneous increase in the level of loan defaults by developing countries, companies and individual borrowers.

The Gulf crisis, with the resulting fall in economic activity and rise in risks, appears likely to diminish banks' profits, which had dwindled significantly in the first six months of this year, even though asset sales may offset some of the increase in bad debt provisions.

Yet this deterioration in profitability and in asset quality does not appear to call into question the overall solidity of the French financial system.

There have been in the last two years a number of bank collapses. The largest of them, Al Saudi, left a deficit of about FFr2.5bn. The stock market has seen a number of failures, including the recent spectacular bankruptcy of Tuffier et Associés.

More such failures can be confidently predicted. Most of the troubled Middle Eastern or African consortium banks have been sorted out, but a number of specialist money market banks have suffered from the inversion of yield curve which has made short-term money more expensive than long; some have been absorbed by larger institutions.

A number of stockbrokers are so far from making adequate profits that they will soon either have to prune their ambitions to concentrate on specialised niches or seek the shelter of a larger group.

None of these failures, however, appear to pose any systemic risk. France has not, at least so far, suffered the kind of property slump that has hit the UK, and even the most gloomy of Parisian bankers refuse to predict a Drexel-sized disaster.

Management consultants say that French banks are generally far behind their US, UK or even German competitors in the sophistication of their cost accounting and management control systems, but that they are making rapid progress.

The implementation of the Bank for International Settlements (BIS) capital adequacy ratios, too, has forced many banks to think carefully about the profitability of some of their assets.

But some smaller banks have had trouble meeting capital and provision requirements, France can still boast a strongly capitalised first division.

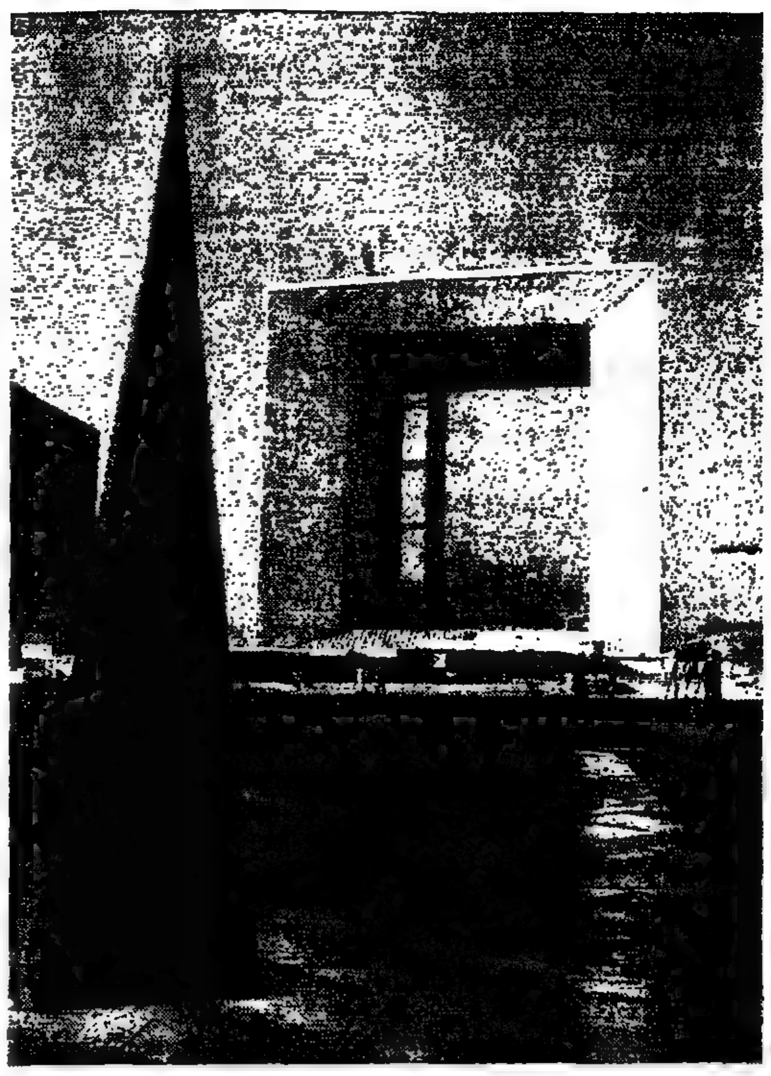
The 16 largest French banks exceed the BIS ratio, which calls for a capital base amounting to at least 8 per cent of their weighted asset base, according to the Commission Bancaire, the French bank supervisory authority. Many of the largest banks have provisioned over 50 per cent of their sovereign debt exposure.

This leaves France with a surprisingly large battalion of well capitalised, profitable and expanding banks, ranging from the big retail banks such as Crédit Agricole, Europe's largest bank in terms of capital and assets, to commercial banks such as state-owned BNP and Crédit Lyonnais or private sector Société Générale.

In the investment banking sector, the two big "banques d'affaires", Paribas and Suez, remain world players, even if both have been through difficult periods over the last year.

They have had difficult changes of chairman, Paribas after failing in its contested takeover bid for Compagnie de Navigation Mixte, the industrial and financial services group controlled by Mr Marc Fournier, Suez after succeeding too well in two stock market battles, for the Belgian conglomerate Société Générale de Belgique and for the French insurer Victoire.

Insurance companies such as state-controlled Union des Assurances de Paris (UAP) have shown that they have a financial muscle to be reckoned with – not least by the French banks in which they are shareholders. These banks and institutions could have the strength and competitive experience to make France a force in the future European financial market.



Alan Harper

The Great Arch at the modern Défense business centre west of Paris

IN THIS SURVEY



*Editorial Production: Phillip Halliday*

Ian Davidson looks at government reassurances on the economy

# No relaxation in policies

THE French economy is bound to be adversely affected by the crisis in the Gulf, with lower growth and higher inflation. But the government is putting on a brave face by reassuring the electorate on two points. First, that the impact of higher oil prices will be much less severe than it was at the time of the two oil crises of the 1970s; second, that the government will not be bounced into relaxing an anti-inflationary policy which has made France a hard-currency country.

In terms of economic arithmetic, the government's stance of stolid reassurance is no doubt premature. In the short term, the price of oil, which Mr Pierre Bérégovoy, the finance minister, is provisionally assuming at $25, is certain to be unstable and may average out significantly higher; in the medium term, through the underlying shift of supply and demand, the world faces a significantly higher equilibrium price, which some analysts forecast will reach $60 by 1995.

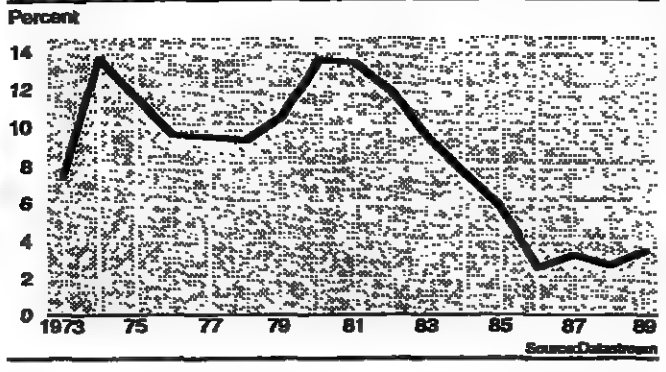
In terms of political strategy, the government's posture is well judged. France is less dependent on oil imports than it was in the 1970s. More importantly the economy has become stronger after seven years of steady anti-inflation policy, with rapid economic growth, falling inflation and an increasingly strong assumption that the franc will remain firm against the D-Mark and other hard-currencies in the European Monetary System.

Michel Rocard

Since these are not benefits which the government is about to abandon lightly, it is broadly sticking to its policy: further reductions in government spending and the central budget deficit, reduction of consumer taxation as part of the anti-inflation strategy, combined with a strict monetary policy, and encouragement of corporate investment.

Over the past five years the central budget deficit has been brought down year after year, from 3.3 per cent of gross domestic product in 1985 to 1.6 per cent in 1989. This year it was cut by a further FFr10bn to FFr90bn or 1.4 per cent of GDP, and next year it is to come down again by FFr10bn, to FFr80bn or 1.2 per cent of GDP.

**Inflation**




Source: Datastream

As the deficit has fallen, the growth rate has climbed, from 0.8 per cent in 1983 to 3.7 per cent in 1988 and 1989, tailing off this year to around 2.8 per cent, and perhaps to 2.7 per cent next year.

Over the same period, the inflation rate has fallen as measured by the critical relationship between French and German inflation rates. The gap has shrunk almost every year in the past seven years, from 6.7 per cent in 1983 to 0.6 per cent last year, and perhaps a similar figure this year.

Consumers will benefit from a further reduction in the top rate of value added tax (VAT) on cars and electronic goods, while company investment is supposed to be promoted by another cut in the rate of company tax on non-distributed profits, from 37 to 34 per cent, the rate on distributed profits remaining unchanged at 42 per cent.

A reduction in France's top rate of VAT, which has been significantly higher than in most other European Community countries, is agreeable to consumers and is widely recognised to be unavoidable in the context of the single European market of 1993. Similarly, a reduction in French corporate tax rates towards the prevailing European level is widely regarded as a healthy development. Finally, the French people are manifestly proud of having broken the inflation/devaluation cycle, and the sense of national pride became palpable when the Organisation for Economic Co-operation and Development (OECD) earlier this year gave the French economy a glowing bill of good health and sound management.

Whether this fiscal recipe will prove popular with the government's socialist supporters is uncertain. It is commonly asserted that President François Mitterrand's tenure in office has finally brought about the psychological reconciliation between the French people and the modern world of business, but not all socialists are yet prepared to admit it. Among some party militants there is a feeling that the costs of the economic recovery of the past seven years have mainly been borne by workers or consumers, whereas the corporate sector has been pampered, and they fear – correctly – that the government intends to share out the costs of the Gulf crisis on the same basis.

Some would infer that the reconciliation between the French and their economy has still some way to go: sooner or later, the costs of the Gulf crisis would have to be borne by the French people, which means workers and consumers, and there was probably no long-term alternative to a strategy designed to strengthen the productive arm of the economy. Nevertheless, there is circumstantial justification for this political sense of grievance.

Company investment has soared for the past five years, as have company profits. But the restructuring of the industrial sector during the 1980s led to large layoffs in many sectors, and only in the last three years has the economy started to generate significant numbers of jobs.

Terry Kirk

Pierre Bérégovoy

**ECONOMIC OUTLOOK (% changes)**

| | 1989 | 1990 | 1991 |
|---|---|---|---|
| GDP | 3.7 | 2.8 | 2.7 |
| Consumption | 3.0 | 3.3 | 2.6 |
| Company investment | 6.9 | 6.7 | 5.0 |
| Exports | 11.3 | 5.1 | 5.9 |
| Imports | 9.6 | 5.3 | 5.6 |
| Consumer prices | 3.6 | 3.4 | 2.6 |
| Trade balance (FFr) | -43bn | -40bn | -50bn |
| Oil price ($/barrel) | 17.8 | 20.4 | 25 |
| $:FFr exchange rate | 6.38 | 5.50 | 5.30 |

Source: Finance Ministry, 1991 budget

Unemployment climbed steadily throughout the first half of the decade, peaking in 1987 at 10.5 per cent – well above the European average – and the last three years of rising job creation have only recently brought the rate down below 9 per cent.

This is partly explained by France's demographic profile, since France has a significantly heavier flow of young entrants into the job market than most of its neighbours. But industry has been hard pressed to meet international competition, and the competitive short-fall is still showing up in a worrying deficit in international trade in manufactured goods.

The conservative opposition parties are gearing themselves up for a campaign of criticism of the government's economic policies. But apart from the option of a renewed programme of privatisation, it is unlikely that they would in practice offer anything very different.

The single market and the programme of Economic and Monetary Union obey a logic which now embraces the moderate left and the moderate right, and no serious political leader is offering anything different. The problem for the socialist government is to persuade its voters to recognise that anything socialist will have to be provided within a framework which is liberal.

William Dawkins assesses recent disappointing company results

# Uncertain outlook for profits

LIKE their counterparts across Europe, many French companies are tightening their belts, trimming investment and employment plans and preparing for a mini-recession.

They were rolling in clover in the late 1980s. But now, after half a decade or more of sales and profits growth – a lot of which came from acquisitions – the corporate sector may be reaching a plateau. The proof is beginning to show in the form of the recent rash of disappointing interim results, some of which confirm suspicions that some big bidders in recent years have over borrowed.

Analysts are cutting back a whole series of full-year forecasts. Le Nouvel Economiste, the respected business magazine, has scaled back its full-year forecasts for 14 of the 23 top industrial companies which have published results for the first six months of the year.

BNP Securities, the equities arm of the state-controlled bank, has published revised earnings for 10 leading stocks, and brokers across Paris are doing the same.

Among the biggest losers in analysts' forecasts are most of the insurance sector, due to the lower gains they will receive from their devalued equity portfolios; Thomson-CSF, the defence electronics group; Michelin, tyre manufacturer; Chargeurs in transport and Elf Aquitaine, the oil group.

The emerging consensus is that the oil price rise, triggered by the Gulf crisis, has only intensified an inevitable growth slowdown.

The French corporate sector can expect a 10-12 per cent average profit rise this year, slowing to 7 per cent in 1991, which compares with the average 15-16 per cent growth they recorded last year, according to a joint study by Crédit National, the state-controlled provider of credit to companies, with stockbrokers Dupont-Denant.

Oil prices have hit costs generally, contributing to a 0.6 percentage point jump in the monthly inflation rate in August, bringing the annualised rate to 3.5 per cent.

Meanwhile, demand has started to weaken, leading INSEE, the national economic monitoring body, to reduce its earlier forecasts to a 2.6 per cent growth in gross national product this year, a slowdown from the 3.7 per cent achieved in 1989.

The good news is that many French companies are better equipped to cope than in previous slowdowns.

"After five years of recovery, companies are in a better situation than in the last oil shock," says the Crédit National study. "Their profit levels are twice as high, their debts are reduced, management has been improved and the government is trying to maintain companies' capacity to invest."

That claim is supported by the latest Bank of France study into industrial productivity, which shows that the corporate sector's gross profit margins rose to 11.3 per cent last year, from 10.8 per cent in the previous year. Over the same period, industrial companies' debts fell from 43.2 per cent of shareholders' funds to 40.3 per cent, a large improvement from the peak of 65 per cent in 1984.

Of course, the likely impact will be very different across sectors.

The Crédit National study says that the hardest hit will be the big consumers of oil products, such as transport, construction companies, chemicals and some food producers, including dairies, suger refiners and canners.

That, of course, will be true in any country. Meanwhile, a decline in demand from private households will feed through to sectors such as cars, housebuilding and consumer electronics, another trend which will not be confined to France.

However, heavy French industries such as aluminium, steel and cement might be less affected than European competitors because of their conversion to cheap nuclear powered electricity, a lesson drawn from the two previous oil shocks.

The latest six-monthly figures from French industry show that the pattern is already becoming reality.

France's large automotive sector has been especially badly hit.

Renault, the state-owned car maker, is forecasting at least an 8 per cent fall in full-year profits, its RVI trucks subsidiary has reported a 34.6 per cent earnings fall for the first half.

Meanwhile, Valeo, France's biggest producer of motor components, ended the first six months with profits 13 per cent down on the same period last year. Michelin, the tyre manufacturer, has announced a first-half loss, and cannot exclude a loss for the full year. All three have been active on the acquisition trail recently and have unusually high debt rations for their sector.

Peugeot has been relatively unscathed, with an 8.8 per cent rise in first half profits and a forecast of stable earnings for the year, partly a reflection of how it is far less indebted than its fellows in the French automotive industry.

Meanwhile, in construction related business, Lafarge Coppée, the leading cement group has reported stable earnings, as has Saint Gobain, the glass producer.

Other disappointing performers have been Rhône-Poulenc in chemicals, with a 13 per cent decline in first half profits, hit by currency losses and the increased debt payment burden flowing from its ambitious acquisition programme, and CMB in packaging, with earnings down 2 per cent in the first six months.

Some of the food and drinks industry's top names have brought disappointing news, including BSN, the food group with a lower than expected 7 per cent profits rise and Rémy & Associés, the brandy distributors, with a forecast of flat profits for the year, and Pernod Ricard, the spirits group, with a 13 per cent decline in operating profits for the first half.

At the same time, the interim results season has not been universally gloomy.

The diversified bank Crédit Lyonnais; Accor, the hotel group; Compagnie Générale d'Electricité, the telecommunications and engineering company and Pechiney in aluminium, have all produced profits rises on or above forecast for the first half.

Clearly, the French corporate sector is a very long way from running into a crisis. The best managed and financially most sound companies can still turn in good results.

However, most observers agree that the outlook is murky and volatile.

Europe in harmony by 1993. **George Graham** investigates

# Doubts about tax burden

THERE is a time-honoured tactic for European politicians which involves blaming the European Commission for decisions which you know you will have to take, but which are unpalatable to domestic public opinion or to your political supporters.

France has been no more monastic than its neighbours in employing this tactic. Last year, for example, the dictates of European harmonisation provided a convenient scapegoat for a reduction in tax rates on savings products – a measure viewed as a distasteful "present for the rich" by some of the French government's socialist supporters in parliament.

Taxation remains one area where France still has much left to do if it is to fall into line with the other members of the European Community. The overall French tax burden, at 43.9 per cent of gross domestic product, remains one of the heaviest in the EC; and the structure of tax revenues, with an unproductive income tax, extremely heavy social security payments and higher than average rates for value added tax, seems to beg for adjustment.

In many other areas, however, France is ahead of its neighbours, and claims with pride to rank first in the EC for the implementation of European directives.

*Mutual fund harmonisation*, under the inglorious name of Unitised Collective Investments in Traded Securities (UCITS) in English or Organismes de Placement Collectif en Valeurs Mobilières (OPCVM) in French, has provided France with a ready-made competitive advantage.

Although some fund managers feared that their customers might flee to Luxembourg to escape the prying eyes of the tax inspector – an old French fantasy, though one that has

Ashley Ashwood

**The Bank of France**

proved, since the ending of exchange controls, to be less than nightmarish – France's mutual fund industry has developed into the largest in Europe, with a total of FFr1,414bn under management at the end of September, according to Europerformance, the mutual fund statistics monitoring agency.

France's advance is particularly marked in the field of money market funds, which now total FFr771bn. This headstart is the product of a handicap – legislation forbidding the payment of interest on current accounts, which has prompted bank customers to seek other homes for their cash balances – but the expertise and computer systems that have been acquired give French banks a distinct edge over their competitors in other European countries, notably Germany.

The single European banking market also seems unlikely to leave France dragging its feet. France has already adopted regulations on capital adequacy ratios agreed last year by the Community, and is working on the implementation of the second banking directive, which harmonises bank supervisory norms.

*This directive paves the way* for freedom of establishment in any EC country, but setting up the principle that a bank recognised by one Community supervisory authority should be automatically accepted by another.

This same principle, however, appears to be causing more difficulty in the context of a proposed European directive on investment services. Current drafts of this directive are vigorously opposed by the French stock exchange and by some government officials, who fear that they could lead to mayhem in Europe's securities markets.

Others contest the Commission draft as throwing its weight too heavily on the side of a London style of stock market organisation, rather than in favour of the more organised and centralised markets of continental Europe.

"The directive is perceived in Paris as being completely drafted in the interests of SEAQ International," commented one government official.

Mr Régis Rousselle, chairman of the French stock exchange, is less pugnacious in his analysis of the bias of the current draft, but quite as damning of its direction.

"They set out on the wrong foot with this directive by copying the banking directive, which was concerned with the freedom to supply services but ignored the problem of markets. The current draft doesn't even define the notion of a stock exchange.

"They are trying to amend it now but they should start the whole thing afresh on the basis of the idea that Europe should have a structured equity market," Mr Rousselle says.

The Commission des Opérations de Bourse (COB), the French stock markets regulatory body, would also prefer the directive to favour the centralisation of orders on an *organised equity market*, in order to facilitate supervision.

"The British do not seem to find this indispensable, but if we move to a system without a central market, we have to find a way of keeping things under surveillance," comments a COB official.

*Not all French government* officials, however, are convinced of the importance of the problem.

Some senior finance ministry officials point out, for example, that the French bond market has escaped wholly from the centralised stock exchange, with no obviously disastrous results, and that investors can already place stock market orders in London.

"This is not like the banking or insurance directives, where we really had to blow up some barriers; competition already exists," comments one official.

"The directive at present does not define clearly enough the balance between the right to organise and the right to restrict, but it is by no means proved that that centre of gravity involves the death of local stock markets," he adds.

The future insurance directive, on the other hand, could prove *extremely difficult* to negotiate.

Freedom to sell insurance policies across frontiers will really make a difference only to large corporate customers, and to increase competition in the personal insurance market will require considerable progress on freedom of establishment.

Some French officials are pessimistic about obtaining a framework with really succeeds in breaking down barriers, particularly to allow access to the German market.

## MERGERS

# Groups pause for reflection

THE WAVE of Gallic takeovers which swept across Europe last year and in the early months of 1990 is taking a pause.

French companies are allowing themselves a moment's reflection after a period in which they have mounted their most aggressive corporate offensive since the war. More liberal attitudes in formerly insular Paris boardrooms, motivated by an urge to catch up with more international diversified European competitors, and helped along by an increasingly sophisticated French banking system had created a heady world-beating atmosphere in corporate France.

French companies were the biggest acquirers in Europe in the first half of last year and again in the first quarter of 1990, as well as among the top foreign bidders in the US. They spent FFr90.4bn on 514 takeovers in the first six months of this year, as against FFr171.6bn on 844 acquisitions in 1989, according to the specialist Paris-based mergers publication, Fusions & Acquisitions. Within that, they made 230 foreign takeovers worth FFr55.4bn in the first half of the year, as against 340 foreign deals valued at FFr100.7bn for the whole of 1989.

They include some of the largest deals of the past 12 months: tyre group Michelin's acquisition of Uniroyal Goodrich of the US, turning the French bidder into the world market leader in its sector; glassmaker Saint-Gobain's takeover of Norton, the US maker of industrial abrasives; and the share exchange between Renault, the state owned car group and Volvo, the Swedish carmaker.

The takeover wave partly came from pent-up demand released by the phasing out of French exchange controls between 1985 and this year. It reflected how the profits upturn of recent years gave French companies confidence *to increase* their borrowings – a situation which is now changing as some of the biggest potential bidders scale back their profits estimates.

Another factor is the freedom being exercised by formerly state-owned companies privatised by the right-wing Chirac government between 1986 and 1988. Existing state-owned companies have been equally active, creating a political problem with the British Department of Trade and Industry, which has worried the French government by warning that it will consider whether a bidder *is state-controlled* when vetting a merger.

It has referred to the Monopolies and Mergers Commission an offer by Credit Lyonnais, the state-owned bank, for a small Irish leasing company, plus a proposed merger of the missile making business of Thomson-CSF, the state-controlled electronics company, and British Aerospace.

Yet the takeover traffic has been busy in both directions, in and out of France, assisted by last year's relaxation of controls on foreign investment, a mark of the *continued* evolution of the Socialist Government's liberal economic policies.

France has become especially attractive for foreign investors in financial services, where Allianz, the German insurer has taken 50 per cent of the Via insurance business from Navigation Mixte and Dresdner Bank has taken control of the Banque Internationale de Placement.

The inflow can be seen in manufacturing, where Emerson Electric of the US last year took over Le Roy Somer, the electric motors group, the largest US takeover in France. Another revealing deal is the takeover of *Chapelle d'Arblay*, Frances' largest newsprint group, by Kymmene the Finnish pulp and paper group. Earlier French administrations had pumped enormous amounts of state aid into Chapelle d'Arblay to keep it out of foreign hands, a strategy which appears to have been abandoned.

Growth by acquisition has been a common strategy across the public and private sector. A survey of 300 large- and medium-sized French companies by consultants Bain & Co showed that size was the top strategic objective, favoured by 38 per cent of the sample, ahead of return on capital.

A good example is Mr Antoine Riboud, chairman of the BSN foods group, which two years ago bought three biscuit companies from RJR Nabisco. His target is to be *first or second* in the European market for each big product line in which his company is present, from beer, through yoghurt to biscuits.

The same kind of ambition drives Mr Paul Dubrule and Mr Gérard Pelisson, the co-chairmen of Accor, the hotels group, who christened themselves the McDonald's of the hotel world following their acquisition last July of Motel 6, the US budget hotel chain. It turned Accor into the world's largest hotel group in terms of the number of rooms owned and managed.

Over at AXA-Midi, the acquisitive insurance group,

**Credit Lyonnais (above): offer referred to MMC. Mitterrand (below): strict dogma**

Mr Claude Bébéar, the chairman, talks in terms of critical mass, of the need to be big enough to not to be trodden under foot by the Japanese.

None of these companies believe they can grow fast enough on their own to compete adequately in the European single market.

Their clear response, borne out by the Bain survey, is to acquire growth. The subjects admitted that acquisitions accounted for two thirds of their growth between 1985 and 1988 – and that this will *rise* to three-quarters between 1988 and 1992.

It would, however, be unfair to accuse all of them of making a blind rush for market share. Some have followed a more focused strategy. Rhône-Poulenc, for example, which has used acquisitions to increase its exposure to higher value added fine chemicals. Usinor Sacilor, meanwhile, wants to increase sales in stainless steel, the most profitable part of the industry, while at the same time increasing its activities downstream, in distribution, so as to gain more control over marketing.

Uncertainties created by the Gulf crisis, plus the realisation that some European economies are in for a period of lower growth, has brought a new caution to acquisitive French companies.

The fact that both equity prices and corporate earnings prospects have fallen across Europe, means that price earnings ratios have fallen to nothing like the same extent as they did in the 1987 stock market collapse. As a result, French corporate raiders feel there are fewer bargains around, says Mr Marc-Olivier Laurent, head of mergers and acquisitions for Credit Commercial de France.

Bidders on the domestic French market have been forced to tread more warily by the introduction in August last year of rules which for the first time oblige an acquirer to make a full bid once it has built up a 33 per cent stake. Clearly, this makes it all the easier for victims to fight off unwanted approaches because invaders can no longer build up majority stakes in French companies on the sly.

Paribas, the investment bank, was the first large predator to discover this to its cost, with its failed FFr36bn bid last October for Navigation Mixte, the food to financial services conglomerate.

Another reason for caution is that some of the biggest French bidders' share prices have fallen even faster than the market, since they made their acquisitions. The prime examples are Michelin and Rhône-Poulenc, where inves*tors worry about their ability* to service the debts incurred to fund the takeovers, as well as the management and financial burden of integrating these acquisitions.

On the domestic scene, activity has been especially intense inside the state sector, but for entirely artificial reasons.

President François Mitterrand's strict dogma against both privatisations and nationalisations has obliged some state-owned companies to undergo extraordinary financial gymnastics to obtain fresh capital.

The latest of several examples is the acquisition by Assurances Generale de France, the insurer of stakes in Pechiney, the aluminium group and Total-CFP the oil company - all three of which are state-owned.

The object of the exercise is to lift the state's stake in AGF above the statutory minimum of 75 per cent so that AGF can issue fresh shares to the public and so enlarge its capital base.

It is too early to say for sure whether this period of hectic activity will grind to a halt.

Paris mergers and acquisi*tions specialists report* that there are less buy mandates around – but then they expect more sellers to come knocking on their doors as the squeeze on profits prompts companies to take a more critical look at peripheral businesses.

**William Dawkins**

The banks' woes are modest compared to the US and UK, says **George Graham**

# Lending margins under scrutiny

A CLOUD is gathering over France's previously buoyant and fast expanding banks.

In comparison with the risks faced by the entire US banking system and the difficulties of the leading UK banks, France's problems may still appear modest. However, the results of the first six months of 1990 have highlighted a marked decline in earnings at many leading banks.

After three years of hectic expansion into the consumer credit market, French banks are now recording a slowdown in their growth, even if this is partially offset by reintermediation in the corporate market, as companies return to their bank lenders rather than issuing their own securities directly.

This slowdown has meant that bankers can no longer mask the erosion of their lending margins behind their growth in volume. Banks that did not cut their lending rates lost market share, but even they have seen their lending margins narrow by an average of half a percentage point a year for the last three years.

"France is the most ungrateful country in Europe from the point of view of margins," complains Mr Jean-Yves Haberer, chairman of Crédit Lyonnais, the large state-owned bank.

The erosion of margins stems principally from a steady increase in the cost of funds, as banks have seen their customers take money away from their unremunerated current accounts and place it in money market mutual funds, or "Sicavs monétaires", earning close to the interbank rate of interest.

The banks have dug their own graves by not charging entry fees on these funds and levying only modest management charges, though some have now begun tentatively to increase charges for individual investors.

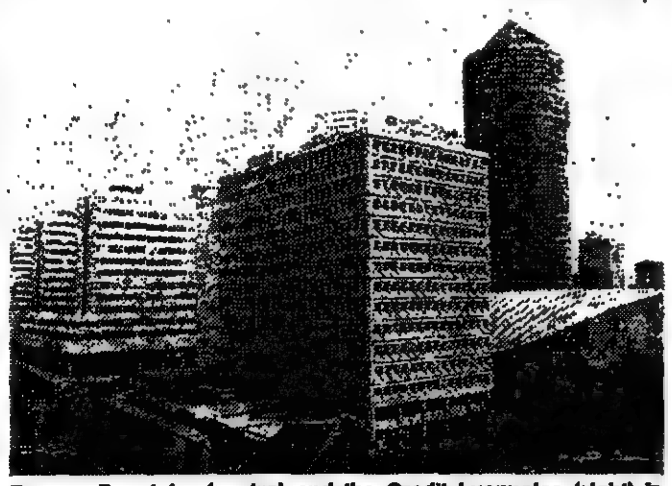
"You can't introduce entry fees because there will always be someone making a pig's breakfast of the competition, maybe because they don't have the accounting systems to tell them when they are losing money," complains Mr Marc Viénot, chairman of Société Générale, the private sector commercial bank.

Perhaps the most worrying problem to emerge in the results of the first half year of 1990, however, has been the severe deterioration in the quality of assets.

**Top 15 French banks**

| | Capital ($m) | Pre-tax profits ($m) |
|---|---|---|
| Crédit Agricole | 11,802 | 1,265 |
| Compagnie Financière de Paribas | 6,968 | 1,255 |
| Banque Nationale de Paris | 6,177 | 918 |
| Crédit Lyonnais | 5,617 | 940 |
| Société Générale | 5,528 | 1,013 |
| Caisses d'Epargne Ecureuil | 3,853 | 630 |
| Banques Populaires | 2,570 | 289 |
| CIC Group | 1,898 | 387 |
| Banque Indosuez | 1,636 | 328 |
| Crédit Commercial de France | 1,512 | 165 |
| Sovac | 653 | 138 |
| Compagnie Parisienne de Réescompte | 509 | 69 |
| Banque Fédérative du Credit Mutuel | 257 | 53 |
| UBAF (France) | 240 | 0 |
| Banque Worms | 221 | 34 |

Source: The Banker



Banque Populaire (centre) and the Credit Lyonnaise (right) in Lyon

French banks had built up substantial provisions to cover their exposure to sovereign debts; now they have had to increase provisions for defaulting corporate and consumer loans.

The problem is not on the same scale as the property-related crisis that has hit some banks in the US and the UK. But Paribas, the investment banking group, has announced FFr2.3bn of client risk provisions in the first half, while Banque Nationale de Paris (BNP), the largest state-owned commercial bank, increased its client risk provisions to FFr1.5bn, with a 25 per cent increase in France.

In the consumer credit sector, the deterioration reflects both the after-effects of the rush for new customers since 1987, following the ending of credit controls – often with insufficient attention to the risks – and new legislation, called the Neiertz law, setting up rescheduling commissions for people who run into trouble over their debts.

The average debtor referred to the Neiertz commissions owes money to 10 different organisations, and one enterprising individual in Marseille had taken out loans with 70 different lenders. Some bankers complain, however, that most are not genuine hardship cases, but intelligent middle income people taking advantage of the new law to negotiate better terms.

Jean-Yves Haberer

Crédit Lyonnais appears to have weathered the storm better than its competitors, with net first half profits up 33 per cent to FFr1.82bn, even though part of this advance was due to the inclusion for the first time of earnings from newly acquired subsidiaries.

Mr Haberer notes with satisfaction the profitability of the network Crédit Lyonnais has built up in Europe, with substantial presences in Italy, the Netherlands, Belgium, the UK and now Spain, following the acquisition of Banco Comercial Espanol. He also points out the development of its investment banking activities, although these have been hurt in terms of profitability by market conditions, and of its FFr17bn equity investment portfolio.

"The charm of the universal bank is that you are present in all compartments of banking and financial activity. Events that are damaging in one compartment are often compensated in another," he comments.

Not all are convinced by Crédit Lyonnais' strategy, however, and some of its competitors, as well as some financial analysts, fear that its aggressive expansion over the last three years may eventually catch up with it.

Société Générale's Mr Viénot, who has just announced a 17 per cent drop in first half profits to FFr1.42bn, is one of those who is sceptical about large scale foreign acquisitions.

"We have not bought animals which resemble us. We believe these networks are very expensive and virtually impossible to absorb. Our policy may be timid or prudent, but we have not jumped in except in niches where we think we can produce a better performance than the locals," Mr Viénot says.

Mr Viénot is also having second thoughts about the equity investments Société Générale has made, noting that he could have made FFr300m more in the first half by lending out the money tied up in his portfolio.

Among the big three banks, BNP reported the worst first half downturn, with a drop of 33 per cent to FFr993m. In some ways its results are the least worrying, for they owe much to two problems the bank now seems to have left behind: a six-week strike, which cost it FFr400m, and the Banque Internationale pour l'Afrique Occidentale (BIAO), a troubled West African bank that BNP was obliged by the French government to bail out.

BIAO cost BNP FFr605m in the first six months of 1990, bringing the total bill over the last three years to more than FFr2bn.

Paribas did not escape the downturn in banking and capital markets, although a FFr1.3bn capital gain on the sale of a building left it with the leeway to boost its bad debt provisions substantially and still to report a 30 per cent gain in net profits to FFr2.49bn.

"The cycle has not disappeared. We cannot escape a slowdown which could turn into a recession, but fundamentally I remain optimistic. For Paribas, it is back to basics," comments Mr André Lévy-Lang, executive chairman of Paribas.

Although many bankers now opine sorrowfully that the time has come to brake the worst excessives of competition in the lending market, it is by no means clear that the pressure on margins is about to be relaxed.

Some banks say they have noticed more reasonable margins in recent months, as the balance of power, so clearly in favour of the borrower for some years now, shifts back slightly in favour of the lender.

Ashley Ashwood

The interior of Credit Lyonnais (banking hall)

In the consumer loan market, the market continues to be driven by the Caisses d'Epargne, or savings banks, whose tax-free "Livret A" savings account procures them cheap funds. The Crédit Mutuel, which benefits from a tax-free savings account, and the Crédit Agricole followed suit.

Bankers have wondered how long home buyers could continue to borrow at lower rates than the French government, but Mr René Thomas, chairman of BNP, hopes that the situation cannot last for ever.

"On the day that lending starts to rise at a slower pace, the depression of margins appears in all its breadth. We can see that the rush for volume is not the answer, and we must stop lending at rates which may be competitive but which don't take account of the cost or the risk. The attitude has been utterly suicidal, but it cannot be prolonged indefinitely," he remarks.

INSURANCE

# End of the takeover trail

"Every day, I thank the good Lord who helped Claude Bébéar fail in his attempt to take over Farmers," a leading French insurer remarks.

This comment could mark the epitaph to a phase of aggressive expansion by the French insurance industry, as company after company embarked on the path of domestic concentration and foreign acquisition.

Mr Bébéar, the ambitious chairman of the AXA-Midi group, had sought to take control of Farmers Group, the US insurance company, for $4.5bn, as part of the now abandoned bid by Sir James Goldsmith's Hoylake consortium for BAT Industries, Farmers' UK parent.

The bid, which was to be partially financed by debt, was one of the most ambitious cross-border deals ever launched by a French company, and certainly the largest a French group had undertaken in the insurance sector. Many of Mr Bébéar's friends believe he was lucky to escape from what would, after the current slump in market conditions, have proved a costly or even disastrous acquisition.

All the same, the last few years have seen a remarkable overseas expansion of the French insurance sector – financed, for the most part, from capital.

Beginning with Compagnie du Midi's acquisition of Equity and Law, the UK life insurer, in 1987, a series of French insurers have acquired significant positions in other European markets. It was Victoire, the profitable private insurer now within the Suez group, which made the most striking move when it agreed to acquire control of the Colonia/Nordstern group, Germany's second largest insurer, for FFr12bn. It followed this with the purchase of a relatively small Dutch insurer, Nieuw Rotterdam, and an alliance with Denmark's Baltica group.

The lessons of these acquisitions are not altogether encouraging. It can be argued that Midi's ambitious purchase of Equity and Law helped to make it vulnerable to its eventual takeover by Mr Bébéar's AXA group. It was certainly Victoire's Colonia deal that triggered a lengthy stock market battle over the company in 1989, ending in it falling wholly into the hands of Suez, which was its largest shareholder.

More significantly for Victoire's future was the aftermath of that battle, for in order to finance the holding, Suez was obliged to sell on a 34 per cent consolidated interest in the company to Union des Assurances de Paris (UAP), the leading state-owned insurance company chaired by Mr Jean Peyrelevade.

This alliance has proved to be uneasy, even if the discomfort appears to be largely on the side of Victoire, unhappy to have such a large competitor looking over its shoulder.

UAP appears in no hurry to flex its muscles – and occupies similar minority positions at Royale Belge, in Belgium, of which it owns 32 per cent, and at Sun Life, the UK life company in which its stake totals 25 per cent.

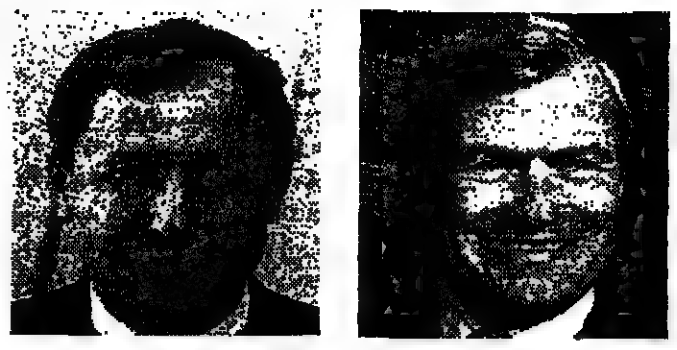
These outcomes appear to give satisfaction to Mr Michel Albert, chairman of Assurances Générales de France (AGF), who has for some time been critical of the expansionist appetites of his French competitors.

"The quintessence of French chic in the insurance sector resides in two principles: the pumpkin principle – the bigger, the better – and the frog principle – the frog which must inflate itself to become as big as an ox. Any company which is not already a pumpkin and which does not have a frog strategy is by definition short-sighted," he scoffed earlier this year.

**French insurance market: premium income (FFrbn)**

| | Accident | Life |
|---|---|---|
| 1984 | 147.6 | 59.4 |
| 1985 | 155.7 | 72.2 |
| 1986 | 162.5 | 95.8 |
| 1987 | 172.0 | 118.1 |
| 1988 | 180.9 | 159.8 |
| 1989 (estimate) | 190.0 | 200.0 |

Source: Fédération Française des Sociétés d'Assurance



Jean Peyrelevade (left) and Claude Bébéar

Last month, however, AGF reinforced its own overseas network, though on a more modest scale, with the acquisition of L'Escaut, a Belgian insurance company previously owned by the UK's Prudential. This will double AGF's market share in Belgium to nearly 5 per cent, although some analysts felt that the price of BFr9.4bn, for a company with premium income of BFr4.7bn and pre-tax profits of BFr700m in 1989, was no bargain.

In any event, the storm clouds created by the Gulf crisis, against the background of a domestic market that was already beginning to show signs of difficulty amid fierce *tariff competition*, have diverted insurers' minds to other themes than that of overseas expansion.

The year had already produced problems for French insurers, with the storms that ravaged many parts of the country this spring hitting underwriting results in the accident insurance sector.

The life sector, which has in recent years been the fastest growing business segment and which in 1989 overtook for the first time non-life in terms of premium income, slowed down markedly.

This trend was helped along by competition from the highly successful new Plan d'Epargne Populaire, a tax-sheltered savings plan which has encountered big demand, bringing in an estimated FFr79.5bn in the first seven months of this year.

The turmoil in world financial markets in the wake of the Iraqi invasion of Kuwait has with hindsight justified the timing of UAP and of Groupe des Assurances Nationales (GAN), both of which took advantage of new rules allowing state companies to float up to 25 per cent of their capital with market offerings of FFr6.6bn and FFr2.4bn respectively.

AGF has raised its capital, but through a sequence of share exchanges with the state-owned aluminium group Pechiney. Market conditions for the moment seem unlikely to encourage a public share offering.

Market conditions also cast a gloomy shadow over prospects for investment income, which has been a far more important source of earnings than underwriting profits for most French insurance companies over the last few years.

The impact must be kept in perspective, for French insurance companies had only about 21 per cent of their total FFr1,066bn investment portfolio in equities, the worst hit sector, while property investments, 12 per cent of book value but substantially more in market terms, still represent a considerable cushion.

If there has been some flattening off in Paris property prices, there has certainly been no decline of the sort suffered in London, and many properties represent decades of unrealised gains.

The largest companies seem unlikely to suffer any great downturn in investment income this year, for big groups such as UAP have a policy of realising as much as possible of their portfolio turnover in the first months of the year.

One senior insurer estimates that it would require a further 15 per cent decline in the equity market before the big companies had to start making significant write-offs on their equity holdings.

Some leading insurers hope the stock market decline will help to soften French competition on premiums, as companies try to improve their underwriting results, particularly in the accident sector.

"This year's generally bad underwriting results and the disappearance of capital gains as a source of income should normally mean an increase in premiums for 1991, but if we raise our premiums alone, it will cut our sales even further," lamented one insurer.

**George Graham**

French groups have been tempted to the City, with mixed results

# London's irresistible lure

FRANCE'S leading banks have found the City of London an irresistible lure.

All of them have tried, over the last five years, their hand in the London market, with strategies ranging from the acquisition of large British subsidiaries to the development of their own activities.

So far, the results have been inconclusive. Some French banks have suffered setbacks, but none has been obliged to shut up shop entirely. On the other hand, none can claim outright success.

In the first stage, French banks chose the classical option of teaming up, with a majority or minority stake, with London stockbrokers. Paribas bought Quilter Goodison in 1986, closely followed by Société Générale with Strauss Turnbull and Crédit Commercial de France (CCF) with Laurence Prust.

These bank-broker partnerships have not been without problems, and over the last year, a new stage of French investment has begun, focusing on the acquisition of fund management companies.

Comparing the strategies of the French banks in London is not easy, for the aims and means have varied widely. Two groups, however, can be distinguished: those who by the size of their acquisitions or by the type of services they have sought to offer – notably in fund management – have tried to penetrate the UK domestic market, and those who have chosen to approach London mainly in its capacity as an international financial centre.

In the first category, the biggest effort has been made by Crédit Lyonnais, the second largest state-owned bank, with the purchase in 1987 of Alexanders Laing and Cruickshank (ALC).

This substantial London stockbroker has had its difficulties in the post-Big Bang market, and its losses have weighed heavily on Crédit Lyonnais's own results. It has now been thoroughly overhauled and rechristened Crédit Lyonnais Capital Markets, abandoning market-making in UK securities in favour of continental stocks.

In this way, Crédit Lyonnais sought to exploit its European dimension, rather than competing on the home turf of the big UK brokers. In the same way, it has closed ALC's gilts operations in favour of the Eurobond market.

The company is now seeking to develop its corporate finance business and has kept some specialised subsidiaries, such as its commodity broking and discount house units, not to mention Laing and Cruickshank Investment Management, which manages private client funds of slightly over £3bn.

Overall, Crédit Lyonnais has incontestably managed to build up a real presence in the City – ALC is, for example, the only French-owned firm to figure among the top 10 for financial analysis in the Extel survey. It remains, however, to justify the operation financially: what with the purchase price, accumulated losses and restructuring costs, it has so far cost Crédit Lyonnais dearly.

Société Générale, on the other hand, is expanding the services of its broking subsidiary, Société Générale Strauss Turnbull. Strauss Turnbull, in which Hambros Bank owns a 17 per cent stake, has in the past year extended its activities to include market-making in the stocks composing the FTSE-100 index, going against the trend.

It is also building up its research activities, and makes a market in French, Dutch and German stocks.

Since last year, Société Générale's presence in London has also included Touche Remnant, a symbol of the new attraction that British fund management companies hold for French banks.

Touche Remnant's £3bn under management adds to £19bn managed in Paris by Société Générale, which is aiming to develop its mutual fund management business on an international scale.

Indosuez, the merchant banking subsidiary of the Suez group, has shown the same interest in fund management, with the acquisition of Gartmore, with some £7bn under management.

In the stockbroking field, too, Indosuez has recently reinforced its subsidiary W.I. Carr, a specialist in Asia Pacific markets where its own presence is already strong, by buying the name and some of the teams of Kitcat and Aitken, to give it a British dimension.

These moves, however, are not quite on the same scale as Indosuez's rejected approach a year earlier to Morgan Grenfell, the London merchant bank, which chose to sell out to Deutsche Bank.

CCF, meanwhile, decided to give up its broking business entirely, closing down the bulk of Laurence Prust this spring; with a market share of less than one per cent, the French bank saw no way of obtaining a satisfactory return on its investment.

On the other hand, CCF has reinforced its fund management arm by finally taking control of Framlington, after several years of complicated relations with this company, which has some £2.4bn under management. Besides fund management, the bank's other focus is on investment banking activities such as mergers and acquisitions and financial engineering.

Those who have focused on London's position as an international financial centre, include Paribas, the investment banking group privatised in 1987, and Banque Nationale de Paris (BNP), the largest state-owned bank.

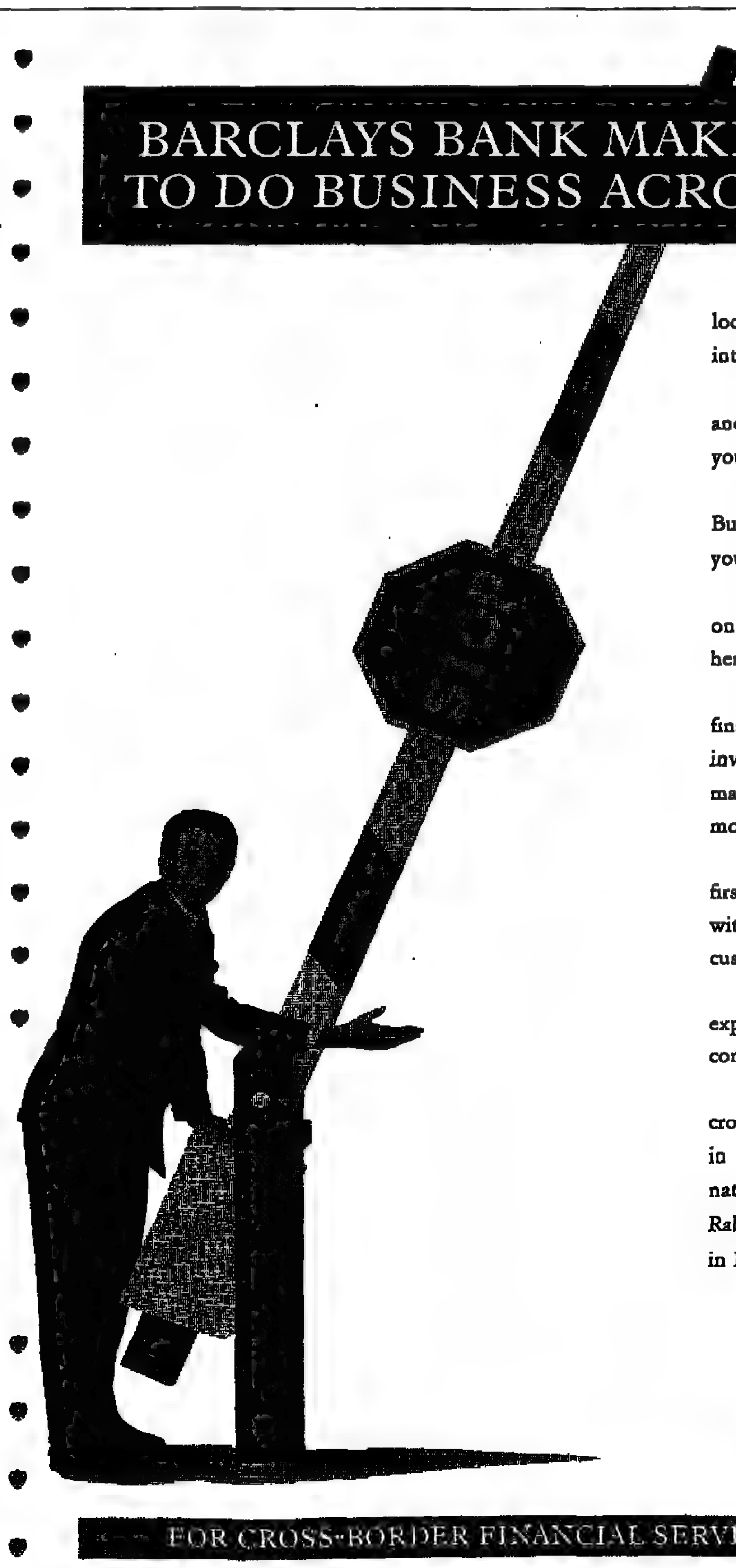
Paribas Capital Markets has half its workforce in London, and has recently extended its range from Eurobonds, where it has long been a large player, especially in Ecus and dollars, into Euro-equities. Notwithstanding its purchase of Quilter Goodison – whose private client business it quickly shed – Paribas has relied less on acquisitions than most of its French rivals. This year, it has added a bond management subsidiary to its London business.

BNP has centred on the international aspects of London. Its subsidiary BNP Capital Markets is split between London and Paris and concentrates on the Euro-markets.

In the equity sector, BNP has restricted itself to recruiting relatively small teams, which allow it to offer specialised services, notably covering the markets of southern Europe.

**Patrick de Jacquelot,**
**London Correspondent,**
**Les Echos**





Stockbrokers face increasing competition, says **George Graham**

# Tuffier collapse highlights decline in commission rates

MR Thierry Tuffier had for years been one of the most flamboyant members of the French stock exchange. With his showy yacht and his lavish parties, this eminently clubbable stockbroker, a former managing director of the Evian mineral water company, had gone all out in his dash to build his company, Tuffier et Associés, into a large all-round stockbroking group, dependent neither on a French bank nor on a foreign broking firm.

Tuffier's collapse in July created even more of a splash than its rise. On July 10, Tuffier announced that it would have to cut its payroll by a third after losing FFr62m in the first five months of the year; a week later, it had filed for bankruptcy.

The case has also been referred to the courts by the Commission des Opérations de Bourse (COB), the French stock market watchdog, for an investigation of possible fraudulent use of clients' securities.

The exact size of Tuffier's deficit is not yet known, but it is already certain that reimbursing clients will wipe out the entire FFr200m stock exchange guarantee fund, obliging the exchange to call on its members to pay up in order to reconstitute the fund.

The stock exchange has had to abandon 90 per cent of the FFr110m it was owed by Tuffier, and Caisse Centrale des Banques Populaires, the central organisation of the French retail banking group which was one of Tuffier's shareholders, had to renounce 80 per cent of the FFr140m it was owed.

The Tuffier collapse pointed a worrying searchlight on the rest of Paris's stockbrokers, who over the past year have faced increasing competition and a decline of about 15 per cent in commission rates. Even though equity trading volume in the first eight months of this year is 26 per cent higher than a year earlier at an average of FFr2.9bn a day, activity has been unevenly spread, with business going to a handful of leading brokers on the one hand, and to the brokers tied to big retail bank networks on the other.

Yet the Paris market is no worse off than many other international markets.

**Yet life has become difficult in the middle and lower ranks**

Without mentioning Drexel Burnham Lambert on the other side of the Atlantic, London has seen far more brokers forced to close down by losses, and the adjustment to lower volumes and tighter commissions is being made in many continental exchanges.

"The problem of the intermediaries is the same as in other financial centres, there is the same phenomenon of adaptation. Beyond the specific problems, paradoxically our stockbroking firms have never had such solid shareholders," comments Mr Régis Rousselle, chairman of the French Stock Exchange.

Mr Rousselle notes, too, that new players are coming into the broking market, with Altus Finance, a subsidiary of the state-owned Crédit Lyonnais banking group, as well as Pallas, the financial group headed by Mr Pierre Moussa, taking stakes in a number of brokers. UBS Phillips and Drew, too, has recently applied for a Paris broking seat.

Nevertheless, the Tuffier episode highlights four questions: the weakness of the independent brokers, the ambiguity of the guarantee provided by banks who are minority shareholders in broking firms, the role of the stock exchange as supervisor, and the segregation of client accounts.

For the independent brokers – now only six out of the 45 Paris firms – the doubt can be self-fulfilling, for some institutions have cut their dealings with them in order to be absolutely assured of the security of their transactions.

"We don't believe in the independents, unless they are just portfolio managers or in small niches," commented one leading foreign banker.

Some, such as Saintoin Houlet and Meunier de la Fournière, have already drawn the obvious conclusion and sought the backing of a bigger bank. Others, such as Wargny and Pinatton, are persevering, and have produced creditable earnings, continuing to make profits in the difficult first half of this year.

Between the independents and the firms which have been wholly taken over by banks or institutions, there is a tier of firms which have one or more significant outside shareholders, but no majority owner.

Régis Rousselle (above): problem of the intermediaries. Dealing room of BNP (right)

These range from market leader Cholet Dupont, 40 per cent owned by Crédit Lyonnais, to the aristocratic firm of Fauchier-Magnan-Durant des Aulnois, which has the backing of the Caisse des Dépôts, Union des Assurances de Paris and Kleinwort Benson with 10 per cent each.

In cases like these, it is clear that the institutional shareholder provides an implicit guarantee. But Tuffier, too, could be regarded as falling into this category, with the Banques Populaires holding 12.45 per cent.

Mr Pierre Bérégovoy, the finance minister, took aim at this problem last month, making it plain that he thought the shareholders of a broker had responsibilities, even if they had the right to limit their involvement to the level of their stake.

"In that case, however, they should not give the public to understand that they will support their subsidiary in case of difficulty," he warned.

As far as the role of the stock exchange goes, the episode may hasten a trend to increase the separation of its different functions.

The organisation has already been split into the Société des Bourse Françaises (SBF), the exchange itself, and the Conseil des Bourse de Valeurs (CBV), the regulatory authority, but they have shared the same chairman, Mr Rousselle, and have been closely interlinked.

Mr Rousselle has now announced his intention of stepping down from the CBV in the near future, but he has also let it be known that he thinks the Commission Bancaire, the supervisory arm of the Bank of France, should take over the task of controlling the non-broking activities of stock exchange firms.

Others go further, and believe that the supervision of broking firms should be entrusted outright to the Bank of France or to the COB.

"They have to be tougher on the weak. That is much easier for a public authority than for a professional body like the stock exchange," comments one law officer.

Segregation of client accounts is a principle that the COB, as guardian of the public's savings, now appears determined to put into effect. The freeze on client accounts at Tuffier, necessary to work out who owned what, may have been much more costly than any fraud, and the COB is keen that if there should be another broker default in the future, it should not have to wield the same sledgehammer and freeze accounts.

Segregration will cost money, however, and some intermediaries doubt whether it would be truly effective unless brokers set up a separate line at the central Sicovam securities clearing house for each individual customer, an operation which few believe to be practicable.

Some form of segregation may prove an essential marketing ploy, however, and even some brokers wholly owned by big banks have moved their custody operations to their parent in order to reassure customers.

"Individual investors are getting very risk-averse in their choice of counterparties, and we are seeing a number of investors shifting their portfolios from stockbrokers to big institutions. This is different to the UK, where investors are much more sensitive to performance," comments Mr Gaël de Pontbriand, consultant on financial institutions at Coopers & Lybrand Associés in Paris.

This has tended to overshadow, perhaps unfairly, the sustained strong performance of some of the top Paris brokers. Cholet Dupont, Oddo (35 per cent owned by Assurances Générales de France), Courcoux Bouvet (100 per cent Paribas) and Cheuvreux de Virieu (92 per cent Indosuez) all produced over FFr50m of profits last year. Bacot Allain, owned by Warburgs of the UK, probably did the same, but it does not disclose earnings. Investors mention the improvement in the quality of research and back office execution at many leading brokers.

Yet life has become difficult in the middle and lower ranks, especially when you have to put your hand in your pocket to pay for the mistakes of your bankrupt competitors.

George Graham looks at confidence in the capital markets

# Foreign investment doubles

OVER the past 18 months, France's balance of payments statistics have started to provide documentary proof of a phenomenon that had been visible to financial market dealers for some time: foreigners are buying French securities.

Purchases by foreigners of French securities more than doubled in 1989 from the previous year to total FFr185.9bn. This level of investment appears likely to be maintained in 1990, with FFr42.7bn of net purchases by foreigners in the first quarter of the year and FFr53bn in the second quarter.

These capital flows reflect principally the strength of investors' confidence in the French economy and in the solidity of the French franc; they also show the effect of the ending of the last of France's exchange controls.

They are a tribute to the overhaul of France's capital markets over the past five years, which have created markets with swifter and more reliable trading systems, better settlements procedures and financially stronger intermediaries.

The overhaul has affected both the bond markets, where the OAT French government tapstocks are among the most liquid issues in the world, and the equity market, which has completely left behind it the club-like atmosphere of the old Palais Brongniart, where trading in the 1970s used to be limited to a two-hour period from 12.30pm to 2.30pm. By 1.30pm, all but the most devoted dealers deserted the trading floor, usually for the nearby Vaudeville bistrot.

The reforms have now been almost completed: the old cartel has been broken, and competition has free rein; Paris is now fully integrated into the international financial markets; and the technology has been *completely transformed*, with the introduction of screen-based trading.

Virtually all that remains to be completed of the great capital market reforms is the introduction of Relit, a computerised settlements system whose start-up is under way.

The reform has brought many hiccoughs, and is sometimes criticised as being a slavish imitation of London's Big Bang, with the same consequences that London suffered after stock market reform.

"Honestly, we could have done better, but I don't think we have lessons to receive from anyone, notably not from London," comments Mr André Lévy-Lang, executive board chairman of Paribas.

The problem is that Paris has all the tools and attributes of an international market, but in equities, at least, it still lacks the sheer size of the world's main financial centres: New York, Tokyo or London.

"Paris has the liquidity of a market its size, that is to say, a market which represents only 20 to 30 per cent of the country's gross domestic product, and where the biggest listed companies have a capitalisation of FFr50bn or so. In London, the biggest companies are about FFr150bn, so obligatorily they have more liquidity," admits Mr Régis Rousselle, chairman of the stock exchange. He adds that Paris has considerable growth potential ahead of it.

**Paris stock market trading volume (FFr bn)**

| | Shares | Bonds | Total | Market cap (equity) |
|---|---|---|---|---|
| 1986 | 384.4 | 1,673.5 | 2,094.8 | 1,104.2 |
| 1987 | 522.1 | 2,426.5 | 3,011.6 | 929.2 |
| 1988 | 412.7 | 3,424.9 | 3,880.3 | 1,483.7 |
| 1989 | 667.5 | 3,310.0 | 4,029.0 | 2,111.8 |
| 1990 (Aug) | 482.7 | 1,966.8 | 2,449.6 | 1,874.7 |

*Source: Société des Bourses Françaises*

The French stock market boasts 608 domestic listed companies and 223 foreign listings, with a combined market capitalisation of FFr1,952bn, according to the statistics of the Commission des Opérations de Bourse (COB). The UK has three times as many listed companies with a combined market capitalisation 2½ times greater.

Even these figures present an exaggerated view of the potential depth of the French market, for a large proportion of listed companies, particularly on the second market, have a free float representing only 10 per cent or sometimes less of their shares. Many listed companies are wholly controlled subsidiaries of other listed companies.

In the bond market, this problem is not felt, for the government has become a prized issuer, both for the quality of its signature and for the regularity of its issuing techniques, based on a monthly auction of two to three tapstocks, known as OATs.

Total French government bonds outstanding amount to some FFr785bn, but the issuing policy has concentrated trading on a few benchmark issues. The French Treasury's own liquidity indicator, covering dealings in the OAT 9.7 per cent 1997, the OAT 9.5 per cent 1998, the OAT 8.125 per cent 1999 and the OAT 8.5 per cent 2000 (the tapstock being issued), shows turnover averaging FFr2.29bn a day on the Paris market. A further FFr2.96bn a day on the Cedel and Euroclear systems, in the lull of August this year, and a third higher in June.

This effect may be felt in the Ecu bond sector, where the French Treasury's two issues, OAT Ecu 8.5 per cent 1997 and OAT Ecu 9.5 per cent 2000, now have Ecu3.9bn in issue, making them among the most liquid lines available in the European currency – a considerable advantage for the new Matif Ecu bond futures contract.

The shorter end of the debt market offers considerable liquidity, with FFr195bn of commercial paper in issue at the end of August, FFr592bn of certificates of deposits, and FFr559bn of Treasury bills.

In equities, however, the depth of the market still leaves much to be desired, and market conditions seem unlikely to encourage many new issuers.

"The essential second stage is before us: to give the Paris market a dimension in scale with our economy. If we can achieve that, I don't think our intermediaries or our systems will prove any handicap," Mr Rousselle says.

There is little that the stock exchange can do to encourage this development, but Mr Rousselle is a partisan of favourable tax treatment for equity investment plans in order to encourage long term savings.

The French stock exchange, remains the standard-bearer for moves to create a working Euroquote system federating European stock markets, with the exchange of share price information, automatic order routing between markets and co-ordinated clearing.

*André Levy-lang*

This project is under way, with technical studies into an electronic share price information system dubbed Pipe. The London stock exchange is taking part in this project, although it often appears to be more interested in extending its own Seaq International system.

"If we are going to build Europe, we can't keep looking over our shoulders. Euroquote is the first stage of a collaboration which will necessarily be much wider. We can't stop there," Mr Rousselle concludes.

The foreign presence in the banking system has a long history

# Outsiders in a difficult market

A FOREIGN presence is no novelty in France's banking market. Banks such as Morgan Guaranty and Banco de Bilbao trace their French origins back before the turn of the century.

Recently this presence has expanded rapidly, and over the last five years the number of foreign controlled banks operating in France has grown by a third.

France boasts 277 foreign credit establishments, 127 of them from the European Community. To put them into perspective, however, their combined total loan book amounted at the end of 1989 to FFr164bn, according to the Commission Bancaire, the banking supervisory authority – a little over 3 per cent of total bank lending in France. Their position in the money markets and in the wholesale banking market was rather greater.

The past few years have seen some variations in the form this foreign presence takes. The US contingent has grown slowly in number, but several US commercial banks have shut up shop, while investment banks have arrived to take their place.

Japanese banks have more than doubled in number over the last five years, and two of them stood last year, for the first time, among the 10 largest members of the French Banks Association, ranked by total assets.

These figures exaggerate their real presence in the market. Although some Japanese banks, such as Bank of Tokyo – with 25 years presence in France – or the Industrial Bank of Japan, have developed a real client base in areas such as real estate, Fuji, the biggest foreign bank in France by total assets, is principally involved in the interbank market. It will be forced to reduce its balance sheet to meet Bank for International Settlements capital adequacy ratios.

The newest arrivals have come mainly from Europe, with 16 new licences granted last year to banks and securities houses from other EC countries.

"The attitude of the profession has always been welcoming towards foreign implantations," observes the Credit Establishments Committee, the body which grants banking licences, in its latest report.

"Once the regulatory authorisations have been obtained, the newcomers find it easy to form commercial and financial relations with the banking community. They generally obtain without difficulty refinancing lines or a participation in credit or investment operations."

Beyond this symbolic participation in the French banking market, however, only a handful of foreigners have managed to establish a truly significant presence. Probably only three can boast net profits of over FFr100m last year: J.P.Morgan of the US, Neuflize Schlumberger Mallet (NSM), owned by ABN of the Netherlands, and the UK's Barclays Bank.

Morgan is the oldest established, and from its headquarters on Paris's Place Vendôme has built up a position that many French banks envy with first division corporate, institutional and individual customers.

"We are the most French of the foreigners and the most foreign of the French. We are French in our franchise, in our products, in our teams, but we do benefit from our international network," comments Mr Didier Cherpitel, managing director and general manager of Morgan in Paris.

NSM is highly rated by competitors, and is especially envied for its base of wealthy private clients.

Barclays, meanwhile, is in some ways the most ambitious of the three, for alongside wholesale, investment banking and stockbroking divisions it maintains a network of 35 branches – modest in comparison with the big French retail networks, but substantial for a foreigner.

"Barclays is the only foreign bank here with a universal banking vocation," says Mr Jacques Rambosson, the bank's Paris chairman.

Mr Rambosson has been restructuring Barclays' French network and has opened a number of specialist personal financial management offices, but he is also looking for acquisition opportunities.

"We are seeking actively along two lines: branch networks which could bring us economies of scale, and specialist banks which bring added value. But we won't make an acquisition just for the sake of it," he says.

More recently, Banque Internationale de Placement (BIP), acquired last year by Germany's Dresdner Bank from Société Générale, can lay claim to the same level of profits as this trio.

National Westminster Bank might have moved into this league had it completed its proposed acquisition from Crédit Commercial de France (CCF) of Européenne de Banque, the former Rothschild bank with a long history of losses behind it but a wealthy clientele and an unusual financial management network. The UK bank announced two weeks ago that it had been unable to agree mutually acceptable terms with CCF.

**Jacques Rambosson (above): Barclays is the only foreign bank in Paris with a universal banking vocation**

One area in which the foreign banks have had an impact larger than their physical presence is in the field of financial innovation.

"You will note that all the real innovations in corporate finance come from the foreign banks; the French banks simply follow up," sneers one foreign banker in Paris.

This has been true for specific products such as the repackaged perpetual capital notes issued by companies such as Rhône-Poulenc, where the running was made by US banks such as Merrill Lynch – though that team has moved to Barclays – and Morgan.

Mr Jean-Marc Georgy, managing director of Morgan, leaps to France's defence.

"It is true that foreign banks have introduced some products, but once a product is on the market, the French banks are extremely fast at catching hold of it and developing the concept.

French banks have been acutely creative in areas such as warrants, and they have also generated ideas that could not be used in France but which have been used in the UK or the US," he says. The teams responsible for innovation at the US banks in Paris are almost entirely French, he adds.

Mr Rambosson, on the other hand, acknowledges that most financial innovations come from the US, but says that this is not surprising because the US has a large and protected banking market with spreads that encourage imagination.

"France is not a profitable market – *on syndications it is* probably the most difficult market in Europe. You cannot expect a miracle. You have to play the long term, and in the long term we have to develop our activity in this difficult market," he concludes.

GG

## MATIF, FUTURES MARKET

# A battle with London

EVER since its creation in 1986, the Matif futures market has been locked in commercial rivalry with Liffe, its London competitor.

All is fair in marketing, so it is only to be expected that the London market should capitalise on the fact that it has managed to overtake Paris's Matif in overall trading volume, lifted by the success of its new German Bund contract.

Nevertheless, there scarcely seems cause for some of the more alarmist headlines in the French press proclaiming that the Matif *has lost the battle* with Liffe.

"Liffe is currently in a superb position with the success *of its Bund contract*. That's life," shrugs Mr Gérard Pfauwadel, Matif's chairman.

Overall, the French exchange *continues to show* a steady advance in trading volume, with a total of 15.5m financial futures contracts changing hands in *the first* nine months of this year.

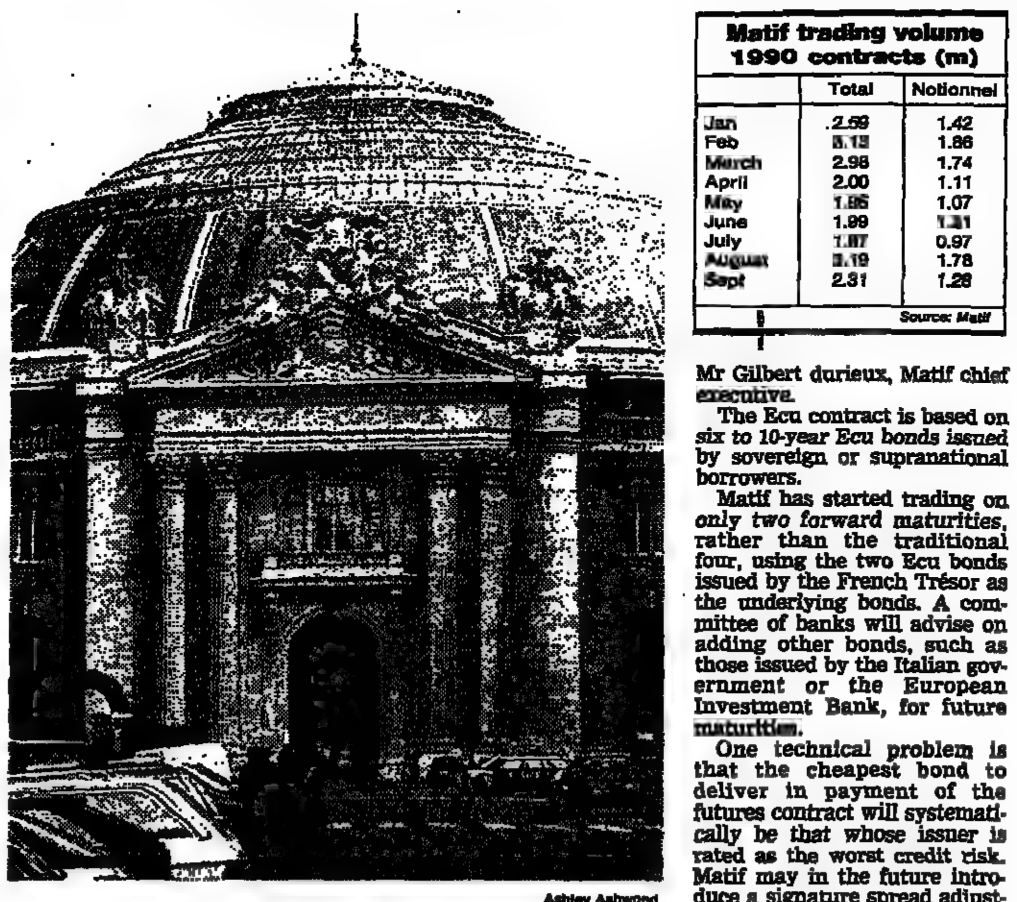
Matif's mainstay remains its "notionnel" contract, a standard long-term interest rate future based on a basket of French government seven to 10-year bonds, a contract which continues to move from strength to strength, with volumes averaging over 66,000 contracts a day so far this year.

Alongside the "notionnel", Matif has made progress with a short-term interest rate contract based on the three month *Paris* interbank offered rate (Pibor), a product which has averaged 8,000 *contracts* a day from January to September, even if it has shown signs of slowing down this year.

More spectacular *progress* has come in 1990 with Matif's first stock index future, based on the CAC 40 index, which started *slowly* in the face of competition from the screen-based OMF market, but which has begun to take off now that it has the French market place to itself.

"We have to recognise that the start-up was laborious, but we now appear to have moved from a trading band of around 2,500 contracts a day to a new *level of 9,000 to 10,000 a day*," comments Mr Pfauwadel.

Volume so far this year has tripled on the CAC 40 future (known affectionately to traders as "Picsou", after the miserly uncle of Walt Disney's Donald Duck) with an average of 9,699 contracts a day in August and 10,266 a day in September as investors found that the real liquidity in the Paris equity market lay in the future, rather than in the underlying shares.



Ashley Ashwood

*In the commodities field Matif has taken over from the* **old-established Bourse de Commerce (above)**

*Matif* is encouraged by the development of its options activity, with business concentrated on options relating to the two interest rate contracts.

On the negative side of the balance, Matif has to admit that it has failed *outright* in its efforts to relaunch its little traded medium-term interest rate contract, based on the four *year French government* BTAN note. Its Euro-DM three month interest rate contract, its answer to Liffe's long German bond contract, has proved a flop – although the attached options are slightly less disappointing.

"Specialists on the Euro-DM pay nothing, but that has still not helped the prosperity of the contract. I have no more ideas – I have run dry," admits Mr Pfauwadel.

The French market is putting these failures down to experience: Matif's managers note wryly that the market's biggest successes have been the ones they thought up themselves, and its flops the products they devised in response *to suggestions* from their member banks and brokers.

Its big hopes for the future now rest on *its* new Ecu long *bond contract, launched last* week.

"If you have a bright new idea, you are in with a chance, especially if you are the first on to the market. Liffe succeeded in building a Bund market in London, and I think they will be very difficult to dislodge. We have another opportunity with the Ecu: I hope we will be able to establish ourselves, and if we do, we will be very difficult to uproot," says Mr Gilbert durieux, Matif chief executive.

**Matif trading volume 1990 contracts (m)**

| | Total | Notionnel |
|---|---|---|
| Jan | 2.59 | 1.42 |
| Feb | 3.13 | 1.86 |
| March | 2.98 | 1.74 |
| April | 2.00 | 1.11 |
| May | 1.95 | 1.07 |
| June | 1.99 | 1.31 |
| July | 1.87 | 0.97 |
| August | 3.19 | 1.78 |
| Sept | 2.31 | 1.28 |

Source: Matif

The Ecu contract is based on *six to 10-year Ecu bonds issued* by sovereign or supranational borrowers.

Matif has started trading on *only two forward maturities*, rather than the traditional four, using the two Ecu bonds issued by the French Trésor as the underlying bonds. A committee of banks will advise on adding other bonds, such as those issued by the Italian government or the European Investment Bank, for future maturities.

One technical problem is that the cheapest bond to deliver in payment of the futures contract will systematically be that whose issuer is rated as the worst credit risk. Matif may in the future introduce a signature spread adjustment, *on the advice of the* banks, to cope with this, although officials note that at the moment there is little spread between different issuers.

"We are fairly confident we will be able to attract liquidity, and that is all that counts; the rest is literature," comments Mr Pfauwadel.

Beyond the Ecu contract, there remain few obvious new product developments, for most variations on the theme *of long or short-term interest* rates have been covered now the Ecu bond contract has started trading.

Stock index futures have been the big innovation of recent years, but Matif is sceptical over whether there is real demand for a European index future, alongside its existing CAC 40.

*In the commodities field*, which Matif has now taken over from the old-established Bourse de Commerce, there is little hope of a renaissance. Paris's coffee contract has dwindled to a trickle, and the cocoa contract has died outright, while the white sugar *contract has suffered from* competition with London. Matif's only hopes of reviving the commodities market rest on very local contracts, such as its existing potatoes future, traded at Lille in northern France.

"The commodities field has lost the products and has gradually lost its fabric of brokers, but we have a feeling that there can still be a need for domestic contracts," says Mr Durieux.

A cereals future is under study, though Mr Durieux does not feel that the market is ripe, and other regional contracts based on relatively fragile and untransportable agricultural products could be imagined in the event of a deregulation of *the EC common agricultural* policy.

Matif perseveres with the commodities market more out *of a sense of duty than out of* commercial interest. However, its efforts to internationalise the Paris market are founded on a more promising scheme: the Globex worldwide electronic trading network developed by Reuters and the Chicago Mercantile Exchange, joined by the Chicago Board of Trade, in which Matif is the main European member – with exclusive rights to Ecu contracts.

*Globex is expected to start* up with the two US exchanges in the first quarter of 1991, with Matif *joining in* in the second half of the year, when it *has worked out some additional* prudential and credit control systems to protect against misuse of the system, which will *function* outside normal floor trading hours.

For apart from liquidity, security remains an essential part of Matif's stock in trade.

The futures market still has a somewhat *louche* reputation in France, as a result of some highly publicised trading losses in its early years and of some questionable practices by *individual dealers, but it has* not suffered the same kind of default as the stock market – helped by tight monitoring of risks and by stiff capital requirements.

The FFr750m minimum capital required for full clearing members is approximately double the equity of the best capitalised Paris Stock Exchange *member*.

**George Graham**

## The COB has been given greater powers

# Sanctioned to protect

THE PAST 18 months have given the Commission des *Opérations de Bourse (COB)*, France's financial markets supervisory authority, a new status, a new chairman and a new rulebook.

The status comes from a law passed in August 1989, which gave the COB a new independence, along with new and enhanced powers of investigation and sanction. The new chairman is Mr Jean Saint-Geours, the 65-year-old former chairman of the CIC banking group who has a long career at the finance ministry and in the state banking sector.

The new rulebook took longer to gestate, after a commit*tee headed by Mr Didier Pfeiffer*, managing director of Union des Assurances de Paris (UAP), the largest French *insurance company, had* produced a set of recommendations. It finally saw the light of day this summer, when the finance minister gave his approval to six new regulations, which the COB will be able to enforce, imposing fines if necessary.

The regulation laid down guidelines for the information to be given to the public about listed securities, and also covered the manipulation of share prices, the abuse of mandates and the protection of the clients of portfolio managers.

A new procedure, called "rescrit", was set up, whereby *the COB can be consulted* in advance on whether a certain action is permissible.

One final rule took longer than the rest to receive *the* approval of the finance ministry: a definition, the first in French law, of the concept of insider trading.

This rule aroused opposition from the judicial establishment, which found that the COB, a para-legal authority, had moved too far on to the turf of the lawcourts.

*The new rules provide* a much tougher framework for operators on the French financial markets, for the COB will be able to penalise contravention without having to prove any fraudulent intention, as a civil law prosecution of insider trading or price manipulation must do.

COB officials argue that the automatic nature of these sanctions is a protection for operators, who can read clearly in the new rulebook whether their acts are *regarded* as reprehensible, rather than having to worry about moral grey areas.

The second protection lies in *the rescrit procedure, for the* prior opinion of the COB provides protection against subsequent sanctions.

"The COB's power to inflict financial sanctions allows us to escape from the all or nothing dilemma. In France, it is very serious to transmit a case to the law courts. It is considered a sign of infamy, so much so that the COB has often been accused of not being willing to take this step, and so appeared to be doing nothing. In this perspective, the fine is a very useful intermediate sanction," explains Mr Saint-Geours.

The COB is only now moving *into action* with its new powers, but already, it has marked up a considerable quantity of investigations.

*In all, 21 cases* were referred to the public prosecutor's office for investigation in 1989, compared with five in 1988 and only two in each of the two previous years. Already this year, nine cases have been referred.

The Société Générale *insider* trading case, with its blend of politics and high finance, has aroused the most sustained interest in France, but the COB also informed the prosecutors of its view that a subsidiary of the Bouygues construction group had knowingly manipulated the share price of the Aux Trois *Quartiers department store*.

In the last month, the COB has also referred to the prosecutors its finding that Tuffier, the bankrupt stockbroker, had misused securities deposited with it by clients to provide its own cash float.

As if to prove that these cases are not then forever buried by the courts, the COB was able *to announce in June* that it had obtained a conviction for insider trading against a senior banker – for dealings which took place in 1983.

Insider trading, however, is merely "the bad and exciting side of the stock market", as Mr Saint-Geours remarks in his annual report. He views the COB's work as falling more and more into the field of systems analysis.

Indeed, the bulk of the COB's activity last year lay not in investigations but in the vetting of over 564 documents published by listed companies and in the authorisation of 1,611 mutual funds and investment companies.

In addition, the COB has had to vet a host of satellite stock market professions such as portfolio *managers* and *the* former half commission agents, bringing the first formal supervision to this hitherto semi-regulated area.

The COB works in close partnership with its counterparts in other countries, and has set up an array of partnership agreements with the Securities and Exchange Commission (SEC) and the Commodities and Futures Trading Commission (CFTC) in the US as well as with the Securities and Investments Board (SIB) in the UK.

With the SIB, the COB has drawn up a joint set of ethical *principles – which some officials* hope may be adopted internationally at the annual meeting of the International *Stock Market Regulators'* Organisation in Chile next month.

With the SEC, the COB *signed* an agreement allowing for systematic mutual assistance; a similar agreement was signed with the *CFTC, but* here, the two regulatory authorities went much further by agreeing on the mutual recognition of each other's supervision.

This agreement, a necessary appendage to the Globex trad*ing system which will link* France's Matif futures exchange with the Chicago exchanges, means Matif products can be traded in the US on Globex and vice versa.

The COB's greatest problem now is living up to public expectations: it is widely blamed for failing to spot shortcomings which, in fact, fall outside its purview – such as the regular supervision of stockbrokers – and it is frequently accused of dragging its feet when it fails to come up with evidence of wrongdoing.

But Mr Saint-Geours believes that "the missions, the grandeur and the servitudes of the Commission have begun to be better perceived."

**GG**

George Graham examines the funding structure of the banks

# Worries over imbalances

OVER the past few years, French bankers have become more and more concerned about a worrying development in the structure of their balance: the growing inadequacy of their customer deposit base to cover their lending.

In 1979, the French banking system boasted combined customer deposits of FFr934bn, covering only FFr880bn of loans. If the commercial banks already lent more than they gathered in the form of deposits – Fr556bn, FFr10bn more than their total deposits – the shortfall was more than made up by the mutual banks, such as the Crédit Agricole or the Crédit Mutuel, whose FFr383bn of deposits covered only FFr312bn of loans.

Ten years later, the structure of the banks' balance sheets had changed significantly: total deposits of FFr2,234bn covered only 82 per cent of lending. The commercial banks were still in deficit – a deficit that had grown from FFr10bn to FFr480bn – while the mutual banks, traditionally rich in deposits, had moved to a narrowly poised equilibrium.

"The evolution has been very rapid. The BNP still had a balance between its deposits and its credits in 1987, and in three years we have passed to a refinancing deficit of FFr80bn," says Mr Daniel Lebègue, joint managing director of Banque Nationale de Paris, the largest state-owned bank.

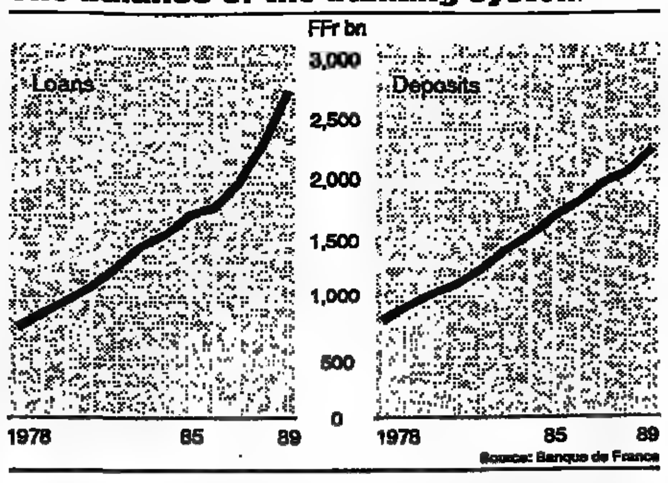
From one point of view, this evolution is merely the natural counterpart to the strong development of lending activity which followed the removal of credit controls, finally abandoned in 1987. To make up for the shortfall in their deposit base, banks simply have to borrow more in the money markets.

A number of leading commercial bankers have taken the view that the shortage of deposits not only creates a possibly dangerous imbalance in the money markets, where only the Bank of France and the Caisse des Dépôts, the state financial institution that manages the deposits of France's savings bank network, continue to be systematic lenders, but also represents a serious distortion of competition.

A campaign has begun to obtain changes on three points:

- The tax rules which encourage savers to put their money in money market mutual funds taxed at 17 per cent – which totalled FFr759bn at the end of August, according to Europerformance, the mutual fund statistical organisation – rather than in bank deposits taxed at 37 per cent.
- Obligatory reserve regulations which require banks to keep more unremunerated reserves at the Bank of France for their on-balance sheet deposits than for their off-balance sheet money market funds.
- Tax-sheltered savings accounts, known as the Livrets d'Epargne, which are the monopoly of the savings banks and the Crédit Mutuel.

**The balance of the banking system**




Source: Banque de France

"I do not underestimate the efforts that have been made by the various governments which have begun the process of reform. The Crédit Agricole has thus become someone we can do business with. But the same is not true of the savings banks nor of the Crédit Mutuel, who do not have the same sensitivity as we do to their profit and loss account and who have dug their heels in on their privileges," complains Mr Marc Viénot, chairman of Société Générale, the biggest private sector commercial bank.

The Crédit Mutuel have a particularly sharp impact on the banking market, for on the strength of their cheap Livret bleu deposits, they have in recent years consistently set the market price that others have to match in areas such as mortgage and consumer lending.

The extent of the problem, however, is contested by the Bank of France, two of whose economists have recently devoted themselves to a study showing that the deposits shortfall is largely made up for by the development of market instruments such as certificates of deposit, and that in addition, although banks' resources are increasingly tied to money market interest rates, their loans are also increasingly linked to the same reference.

The study shows that total client resources, if savings plans, money market instruments and bond issues are added to conventional deposits, amounted to FFr3,091bn last year, compared with total lending of FFr2736bn.

Although the proportion of resources which must be paid for at money market rates has risen to 45 per cent in 1989 from 25 per cent a decade earlier, 89 per cent of bank loans are granted at floating interest rates, and 69 per cent of these are indexed on money market rates.

On a political level, the banks seem unlikely to win the argument.

If the finance ministry is ready to consider some modifications to the obligatory reserve calculations, in the interests of obtaining a greater equilibrium in the money markets, it appears unruffled by the continuing tax advantage of the Livrets. Mr Pierre Bérégovoy, the finance minister, seems unlikely to end the tax advantages of the Livrets, though he may demand that some of the product be used for financing low income housing.

As to the development of money market funds, the finance ministry appears unruffled and, indeed, positively pleased.

"It is clear competition between savings products has become more difficult; banks can no longer simply draw on captive savings. We think this is fundamentally positive, and we certainly have no intention of braking it," commented one official.

The trouble for the banks is that the problem cannot be treated in isolation, but is inextricably linked with other long-running French debates such as the payment of interest on current deposits and the levying of service charges on cheque accounts.

Ashley Ashwood

Daniel Lebègue: the evolution has been very rapid

Some bankers believe they could have won a global solution four or five years ago involving the abolition of the favoured tax treatment of the Livrets, the introduction of charges on cheque books, but also the payment of interest on current deposits.

The political opportunity for such a solution now appears to have passed, and some bankers recognise that, although there may be distortions of competition and pressure on lending margins, there is little systemic danger resulting from the evolution of the last decade.

"There is really no problem about the equilibrium of the money market – that is simply a matter of accounting. The only problem is how much the banks have to pay for their resources," commented one leading Paris banker.

CONSUMER BANKING

# Fingertip financial services

FRANCE'S Minitel teletext service has given the country a headstart in home banking services. All you have to do is to consult your bank balance is switched on the little brown box sitting beside your telephone and dial 3614.

But although the service is easily available, most bank customers prefer more traditional means of communication. Some banks can boast high usage. Crédit Commercial de France (CCF), for example, claims 60 per cent of its customers use the service, but most of the big retail banks have much more modest figures. Only an estimated 4 per cent of the customers of the biggest high street banks use their Minitel services.

French banks have not given up on electronic services, however, and some are trying for a home banking system with a human touch.

Since February this year customers of Cortal, a subsidiary of the French financial services group Compagnie Bancaire, have been able to make routine banking enquiries and transactions 24 hours a day on the telephone. By dialling on a push-button phone and entering a confidential personal identity number, customers can hear a real-time breakdown of their accounts relayed by a "synthetic voice". They can place orders to buy or sell securities in those accounts.

The service, branded as Finexpress, costs only the price of a normal telephone call to Paris.

Cortal claims to be the first and only bank to offer such a telephone home banking service throughout France. While it refuses to disclose how much has been spent on setting up the service, the costs are said to be cheap when compared with savings to the staff workload. As Cortal does not have any branches and answers customers enquiries over the telephone from 9am to 8pm, the saving may be significant.

Finexpress is being used by less than 10 per cent of the bank's 53,000 clients, which is roughly the same proportion of its clients using Minitel – the public, screen-based information network.

Cortal has a reputation for innovation. It was the first bank in December 1987, for example, to offer interest on current accounts with its Compte Optimal. It sidestepped the law which prevents banks from paying interest on cheque accounts by putting deposits in collective investments, such as SICAVs, comprised of short-term money market instruments and into securities.

The accounts are cleared automatically every night. If there is a credit, it is used to purchase money market shares from which interest is paid: if there is a debit, shares are sold to cover the balance. Assets held in computer Optimal are worth a total of about FFr4bn, which makes up about 50 per cent of Cortal's total assets under management.

Consultation and management of the optimal account is available through Minitel and Finexpress.

Some 10 years after the introduction of the Minitel network, home banking services account for about 30 per cent by time of all Minitel use. Services vary between banks but most allow users to consult their accounts, to order a chequebook, to move money between users accounts – including payment directly into another accountholder's account – and to order the buying of shares on the bourse.

Minitel home banking also eases the management of automatic reloving credit facilities. While the term of the credit, and interest rate given, customers are free to choose the level of their monthly repayments, above a minium level. These payments can be made through Minitel as can credit card payments.

The cost of Minitel services vary enormously between banks. Credit du Nord, for example, one of the pioneers in the provision of Minitel services, charges a fee of FFr15 a month plus use, depending on the time of day the service is used; while Credit Commercial de France (CCF) offers it service free of charge.

Cortal's managing director, Mr Olivier Le Grand, emphasises the advantage of telephone compared with Minitel for home banking services.

"There are five times as many telephones in France as there are Minitel screens, so Finexpress can us used anywhere, at home in the office or abroad, unlike Minitel," he said. Furthermore, the telephone is believed to be more user-friendly with customers over 40 who make up about two-thirds of Cortal's clients.

Credit du Nord is believed to have developed its own telephone home banking product which it is in the process of testing. *Société Générale also* has such a product in the wings. But the big retail banks are reluctant to launch their own versions of Finexpress until France Telcom, the state telecommunications company, fixes a uniform national rate for the cost of the telephone call, as is the case with Minitel links. France Telecom is not expected to announce this until next year.

CCF, which was the first bank to offer Minitel home banking services, has yet to decide to develop its own telephone banking system.

Mr Dony, head of Minitel services at CCF, regards an "audiotext" service as only a complement to the screen service, not least because "information is best assimilated when it is seen rather than heard". Furthermore, he thinks that customers will be worried about security breaches.

Cortal is not surprised by the big bank's reluctance to innovate in home banking. "Even though it would be easy *and relatively cheap* for them to master the technology behind an audiotext service, it is not part of their strategy," said the bank.

"They want customers to physically come to the banks from where they hope to sell lucrative commission-based services."

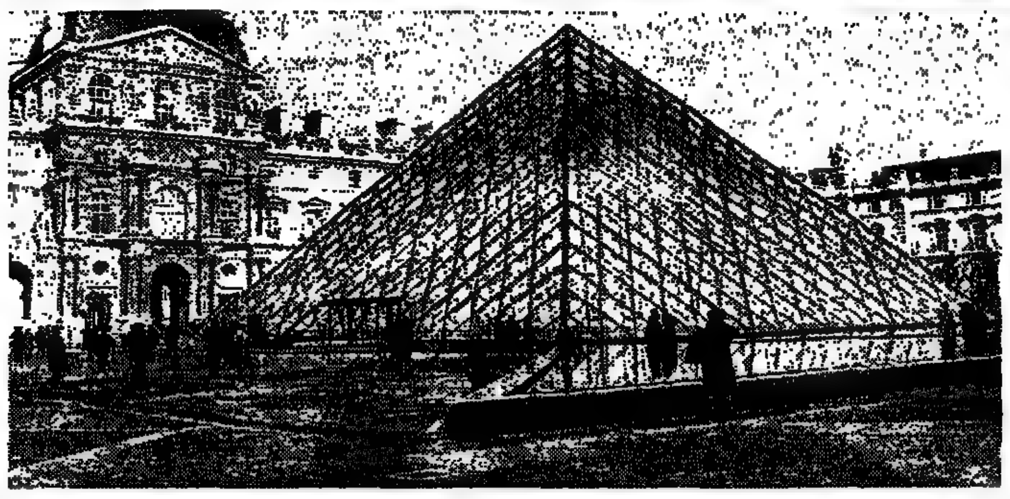
France's biggest retail banks – Banque Nationale de Paris (BNP), Société Générale and Credit Lyonnais, "les trois viailles" – have less of an incentive to be innovative in the field of home banking since a smaller proportion of their customers use it.

Instead, the big retail banks prefer to target the 20 to 25 per cent of depositors who, according to research by the AFB (Assocaition Francaise des Banques), represents about 60 per cent of a typical French bank's deposits.

**Christina Hemsley**

## Living and working in Paris

# Easy if you have the power of the permit



Living, working and shopping (above) in Paris: the new arrival has to tackle the same sort of problems that are found in large cities throughout the world, however there are compensations such as the Galeries Lafayette (below) and the Louvre (left)

EVERY morning, the Ritz, the Crillon and the Plaza Athénée are filled with Parisian businessmen tucking into power breakfasts.

Croissants are all very well when you fetch them from the baker to eat at home. They are less of a blessing over a business breakfast, to which the Parisians have taken with far more gusto than Londoners; their fatty crumbs can wreak havoc with notes and papers.

Fortunately, living and working in Paris have other aspects to make up for breakfast. Lunch, for example, is still generally three courses, and almost always taken with wine.

When it comes to practicalities, however, the new arrival runs into the same problems as in any other large city: wrestling with the bureaucracy, and finding somewhere to live.

Bureaucracy strikes before you come to France, with the filing of duplicate inventories of your belongings to bring into the country, a process in which the imminence of the single European market appears to have made no dent.

Once you arrive in Paris, you have to obtain a "carte de séjour" or residence permit. This ordeal is the subject of much folklore, mostly exaggerated, among foreigners living in Paris, especially those who have had to pass through the central prefecture of police on the Ile de la Cité.

EC citizens are processed more swiftly but less centrally in an anonymous building next to the fire station on Avenue Parmentier.

It is advisable, if you are planning to stay longer than a year, to convert your driving licence. If you leave it too late, you might have to pass the French driving test, which involves an expensive and lengthy course with a driving school, or else find a friend at the prefecture to help smooth over the formalities.

Housing, too, is the subject of much folklore, again usually exaggerated. New arrivals cannot expect to know which districts they want to live in, or how much of a flat – houses are imaginable only for the seriously wealthy, or for those ready to live outside the Paris city walls – to expect for their money.

**Cost of living index of leading cities**

| | August 1990 |
|---|---|
| Sofia, Bulgaria | 194.5 |
| Osaka, Japan | 144.3 |
| Tokyo, Japan | 141.0 |
| Oslo, Norway | 139.0 |
| Helsinki, Finland | 136.6 |
| Stockholm, Sweden | 127.2 |
| Copenhagen, Denmark | 125.5 |
| Geneva, Switzerland | 123.4 |
| Moscow, USSR | 122.2 |
| Zurich, Switzerland | 120.8 |
| Milan, Italy | 115.7 |
| Vienna, Austria | 112.5 |
| PARIS, France | 111.3 |
| Dublin, Ireland | 111.2 |
| Rome, Italy | 111.1 |
| Frankfurt, Germany | 110.7 |
| Brussels, Belgium | 109.7 |
| Berlin, Germany | 109.0 |
| Barcelona, Spain | 108.9 |
| Bonn, Germany | 108.4 |
| Madrid, Spain | 107.7 |
| Chicago, US | 106.8 |
| Hamburg, Germany | 104.7 |
| Lyon, France | 104.0 |
| Los Angeles, US | 103.4 |
| New York, US | 102.2 |
| Toronto, Canada | 101.7 |
| Amsterdam, Netherlands | 100.8 |
| Montreal, Canada | 100.5 |
| London, UK | 100.0 |
| Vancouver, Canada | 99.8 |
| Sydney, Australia | 96.8 |
| The Hague, Netherlands | 96.7 |

Source: P-E International

An agent who asks for a year's rent down in advance is trying it on, and should be shown the door immediately.

It is possible to find accommodation, so long as you do not insist on the Ile Saint Louis, either by scanning the small advertisements in the Figaro newspaper on Monday morning, or by making the rounds of the property agents.(1)

Prices vary according to district. A small three room flat of 60 sq metres in the unfashionable 10th arrondissement or in the 19th or 20th might rent for FFr5,000 to FFr6,500 a month. In the more elegant 7th, close to the Invalides, or in the 16th, in western Paris, it might cost anything from FFr8,500 upwards.

Rent controls are no longer as strict as under the Quillot law, repealed in 1986, which enforced six-year renewable leases indexed on the cost of construction, but some regulations still exist.

For buyers, prices have shown signs of stabilising recently. They can be as low as FFr10,000 per sq metre for old flats in the outlying 19th and 20th arrondissements, but could range from FFr20,000 to FFr27,000 in the Latin Quarter or the 16th and up to FFr37,000 a sq metre in the 7th. New developments can fetch considerably more.

Once installed, newcomers usually find Paris an easy city to live in. It is, for one thing, very small, measuring barely 12km by 9km. This means that walking to work is not an impossible dream: one British banker crosses the Alexander III bridge on foot every morning on the way to his office, a stone's throw from the Elysée Palace.

For those who cannot or will not walk, the public transport system remains among the quickest and most extensive in the world, with a monthly "Carte Orange" season ticket, which covers buses, metros and the RER express trains within Paris, costing FFr180.

The only large drawback to the metro is its vulnerability to strikes, but you can often pass several months at a stretch without suffering from these. Car transport, on the other hand, involves almost permanent suffering and is to be avoided by all but the most competitive.

Taxation, too, can cause headaches. Tax pressure overall is heavier than in most other European countries, but there are many exemptions and loopholes. Social security contributions, but not income tax, are deducted.

It requires an advanced degree in astrophysics to calculate your income tax liability accurately, although during the tax declaration season at the beginning of the year the finance ministry provides a helpful service on the Minitel teletext system.

The most detailed guide to filling out tax declarations, due in by the end of February each year, is put out by the magazine Vie Ouvrière, published by the CGT, the communist trade union.(2) Accountants Coopers & Lybrand, have produced a slimmer guide to the French tax system for foreign nationals.(3)

"With the combination of income-splitting rules and progressive tax rates, the top marginal tax rate begins at FFr239,120 for a single person and at FFr478,240 for a married couple with two children," according to Coopers & Lybrand.

The best way to avoid paying income tax is to have at least four children. That way, you can qualify for the bronze medal for families, as well as cut price fares on the railways.

Even though many French citizens claim blithely that tax evasion is a national sport, this may not be a good idea.

When your time comes to move, the customs will not let your belongings leave France without a "quitus fiscal" certifying that you are in good standing with the tax authorities.

*1) Fédération Nationale des Agents Immobiliers, 129 rue du Faubourg Saint Honoré, 75008 Paris, tel 4420 7700*
*2) La Vie Ouvrière, 33 rue Bourel, 75019 Paris, tel 4040 8636*
*3) Coopers & Lybrand, 56 rue de Ponthieu, 75008 Paris, tel 4420 8340*

George Graham

■ The rediscovery of Europe as an important market for exports, Page 2

FINANCIAL TIMES SURVEY

# CALIFORNIA

■ Silicon Valley fights back against international competition, Page 6

Monday, October 22, 1990 — SECTION IV

In almost every way California is the world's great success story. Yet, its very prosperity, the envy of many countries unable to match its burgeoning economy, now poses a threat as the Golden State tries to combat a variety of problems. **Louise Kehoe** reports

## Penalties of rapid growth

THERE are close to 30m "*Californians*"; *yet few residents* of the state would call themselves such. This most populous of the United States, where one in every eight Americans lives, is a land of immigrants – a place where it is normal to be from somewhere else.

With a rich diversified economy that has outperformed every other part of the US for the past decade, California is a magnet that draws those seeking a better life.

California's burgeoning economy has lured many people to the state over the past decade. *The state's $700bn* economy is the sixth largest in the world and the job market is expanding faster than in any other part of the US. Since 1982, 2.8m new jobs have been created, per capita income has risen from $13,250 to nearly $20,000 in 1989 and over the past four years, the population has mushroomed by 2.5m.

However, this rapid rate of population growth now threatens to undermine the extraordinary prosperity of California. Coupled with a general slowing of the US economy it has raised serious questions about the future of the Golden State.

As the population expands, the state's infrastructure – its *roads, water supplies and* schools – is becoming overwhelmed. Ethnic diversity is creating social division, which is blamed for increased crime. Demand for housing has inflated prices to the highest levels in the US.

The flood of immigrants *across California's southern* border with Mexico is changing the state's cultural mix. By the year 2000, minority groups will represent 47 per cent of the state's population, up from just under 40 per cent now.

However, the full impact of population growth and ethnic *diversity is felt* in California's schools. While "anglo" white middle-class parents are buffered from the immigrant influx by socio-economic barriers, their children have become a minority in the public education system.

About one-sixth of school students in the state are foreign born. Many speak little English and suffer severe culture shock when they arrive. Teachers complain that the state has not provided for the needs of immigrant students and that low spending on education has made things worse.

The problems are most severe in southern California where 40 per cent of the population is expected to be Hispanic by 2010. In contrast, Europeans and Asians remain the dominant cultural influences in many parts of northern California.

The cultural divide between north and south is accentuating the diversity of California. The state has always been a collection of regions of differing geographies, climates, social and economic foundations that co-exist rather than mingle.

There is no one city or region in California that is representative of the entire state. The differing geographic features of California include the fertile central valley, the scenic High Sierra, barren deserts in the south, the rugged north coast and the sandy beaches of southern California.

The state's main cities – *Los* Angeles, San Diego and San Francisco – have little in common. While Los Angeles is a vast metropolitan sprawl, San Francisco is a spirited small city which takes pride in its eccentricities. San Diego, in *contrast, is heavily influenced* by its proximity to the Mexican border. Each has a unique character, a different ethnic mix and widely varying economic base.

The greatest contrasts in the state are between north and south. Ever since California *joined the union in 1850*, northern and southern California frequently have been considered so diverse that they have been mentioned as candidates for separate states.

Residents of north and south still chide each other over regional stereotypes – San Francisco's "*tofu eaters*" versus Los Angeles' "airheads".

The regions face different economic problems. The defence and aerospace industries, concentrated in southern California, have taken the brunt of defence cutbacks with the loss of thousands of jobs. The north's high-tech industries in Silicon Valley, are being hit by a slowdown in computer sales.

The north also is recovering from last year's earthquake. Although tourism is reviving, the psychological effect lingers.

In spite of their differences, California's big cities have much in common when compared to the interests of the state's agricultural regions.

The contrasting images of California, a land of immigrants where it is normal to be from somewhere else

Glyn Genin

The central valley is the bread basket, an agricultural region expected this year to produce crops, dairy and meat products worth $7bn.

While California's city dwellers are seeking to combat traffic congestion, pollution and overcrowding, the state's farmers are fighting proposed environmental regulations to cut the use of pesticides.

In contrast to the idealists of California's strong environmental movement, agribusiness considers pesticide control a threat. Fifty per cent of the state's produce is exported, growers say, and state regulations would place them at a competitive disadvantage.

Farmers are also at odds with California's urbanites over water supplies. After four years of drought, farmers fear their water supplies, which reach the central valley via a state-wide system of canals, will be reduced. Cities that have been forced to ration water for the past three years are resentful of the allegedly extravagant use of water in agriculture, which consumes 80 per cent of the dwindling supply.

Agriculture's hold on the central valley is weakening, however, as urban development encroaches.

The search for affordable housing in a state where home prices are among the highest in the US is creating new communities in areas that were previously fruit orchards and grazing land, making the central valley the highest growth region of the state.

Politically, the more populous south has held sway in state-wide elections. However, the gubernatorial race between US Senator Pete Wilson, a former mayor of San Diego, and Diane Feinstein, a former mayor of San Francisco, will determine whether the voting patterns of the past still hold true.

Neither candidate has publicly addressed what many believe is California's biggest challenge – the need to control growth. To date, the efforts of the state legislature and local authorities to limit development and impose environmental regulations that protect the much prized quality of life have served only to build resentment in the business community.

Silicon Valley's semiconductor companies no longer produce chips in California. Their new factories are in Texas, Arizona, Oregon and Washington. Similarly, southern California's manufacturers are fleeing across the border to Arizona in search of lower costs and fewer regulations. Nonetheless, the vast majority of large West Coast corporations maintain their headquarters in California.

In spite of present concerns, the attractions of the Golden State remain – its natural beauty and its climate; an open-mindedness that is rare in many parts of the US and a can-do mentality that encourages innovation and entrepreneurship.

California also represents a gateway to the Pacific Rim, forging a link with the United States's new trading partners in Asia.

The record growth and socioeconomic change experienced during the 1980s show no signs of abating during the 1990s despite the current nationwide economic slowdown. The California economy continues to attract immigrants by the million.

For those with the training and the ambition to take advantage of the opportunities the state offers, the California dream lives on. Yet, for large numbers of immigrants, especially those who stream across the Mexican border by the hundreds every day, hitting pay-dirt may prove to be as difficult as it was for the '49er gold diggers, most of whom went empty-handed.

### IN THIS SURVEY



*Editorial Production:* *Roy Terry*

Alan Friedman examines the banking sector

# On the trail of retail acquisitions

NOTHING better illustrates the fundamental soundness of the West Coast – when compared to the East Coast's tumble into recession – than the generally healthy state of commercial banking in the Golden State. California may not have a bulletproof economy, but it does have one of the strongest and most diversified economies in the United States.

Mr Robert Parry, a genial former economist who heads the San Francisco-based Federal Reserve's 12th district, says: "I sometimes sound like a broken record at meetings of the Open Market Committee in Washington because I tell my colleagues that California is continuing to outperform the nation."

Mr Parry attributes the successful Californian banking performance, which last year saw the average return on assets at banks in the western region at about twice the national level, to the diversification of the state's economy, the growth in population and employment and the healthier state of the real estate market.

The real estate market has slowed in San Francisco and downtown Los Angeles, but there is nothing like the crisis that began earlier this year in New England and is now spreading down the East Coast.

The Los Angeles-based Security Pacific, for example, the nation's fourth biggest bank, has only $658m of non-performing commercial real estate loans out of a total loan portfolio of $12.1bn. Contrast that with the doubled levels of Chase Manhattan or Citicorp and Secpac seems virtually untouched.

The Bank of America, the third biggest US bank and the predominant force in California, has only $310m of non-performing loans out of a commercial real estate and construction portfolio that totals $9.2bn. Mr Allen Sanborn, vice-chairman of Bank of America, says there is simply no doubt that real estate "is holding up better on the West Coast even if we have seen a slowing down in sales over the last 12 months".

Robert Smith, chief executive of Security Pacific

Mr Joe Arsenio, an analyst at Hambrecht & Quist, recently said it was "ridiculous" to compare California banks with their East Coast counterparts. "There is no comparison between the California banks and the New England regionals. Or even the New York money centre banks, which haven't been faring well lately either."

Mr Arsenio noted that the California banks are far more retail-oriented in general, have better diversity in their portfolios and exist in a more positive environment. Over the long term they are "absolutely better on average than banks in the rest of the nation." Back in decrepit New York, banking analysts are in full agreement.

Meanwhile, Bank of America's Mr Sanborn and other California bankers stress that corporate lending, especially in the middle market (companies with up to $250m of annual sales) is also holding up better than the national average. Even sectors that have been hit by budget cuts, such as defence, are not producing much in the way of loan losses for California lenders.

Mr Robert Smith, chief executive of Secpac, says that while defence cutbacks may produce a 0.5 per cent reduction in California's GNP growth rate, the slimming of defence company workforces in California does not translate into loan losses and may even bolster the companies' financial position. Mr Sanborn at Bank of America says that defence cuts will not have a major impact on the bank's loan book "because we just don't have that much of a concentration in the sector."

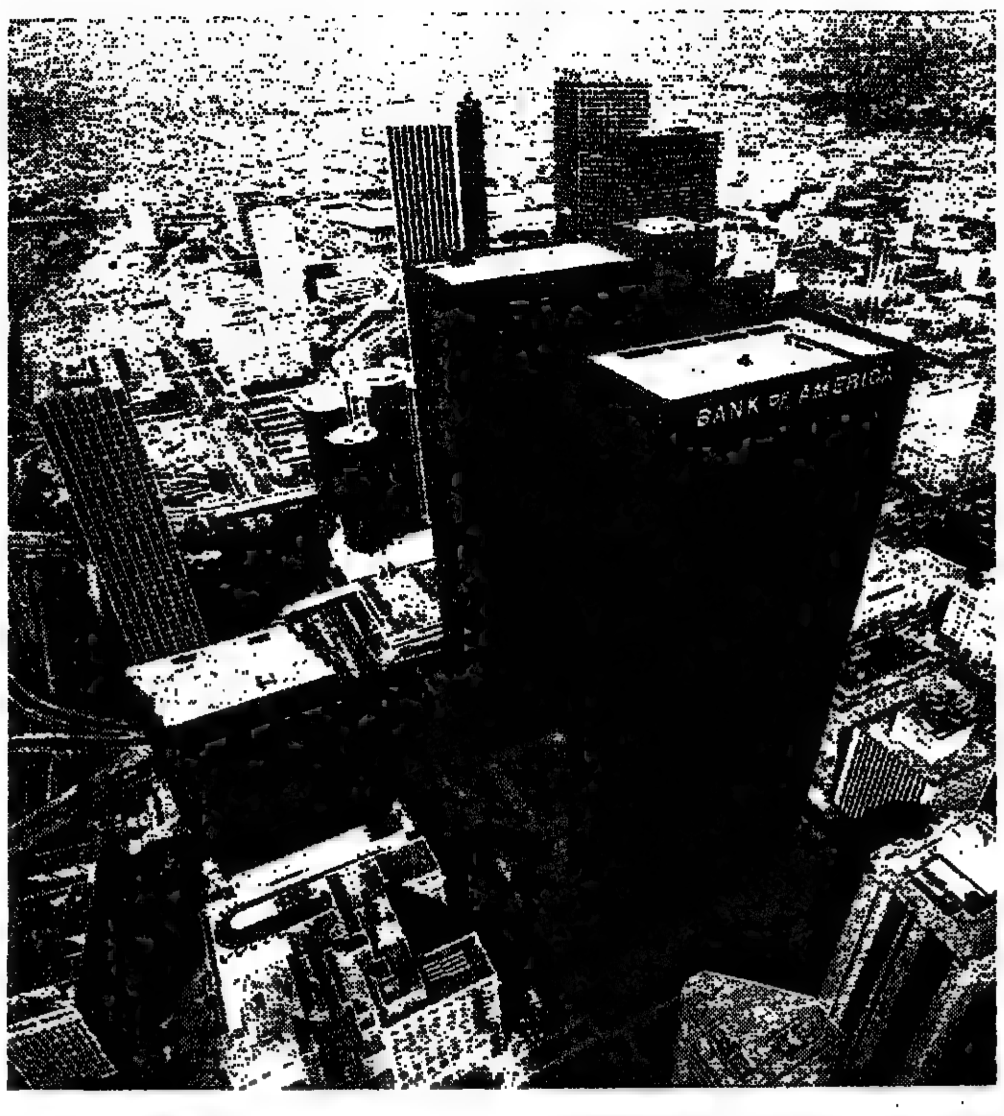
Even the arrival of Japanese banks in California, which now account for 25 per cent of total assets and one third of commercial and industrial lending, is no longer considered a problem.

Mr Richard Rosenberg, the ebullient new chairman of the Bank of America, says several years ago it was very difficult to compete with the Japanese. Today, no longer able to tap easy equity capital in Tokyo and send it to California, the Japanese are less cut-throat and "are just good competitors", says Mr Rosenberg.

The focus of attention in California banking is a far more exciting and constructive story – it concerns the battle under way among the big three banks (Bank of America, Security Pacific and Wells Fargo) to carve out more and more retail banking market share both in the State and in the Western region of the US.

First Interstate, weakened by big losses at its Arizona and Texas subsidiaries, is the exception to the rule and is generally viewed with predatory eyes by the other big players.

The biggest banks, meanwhile, have been on the acquisition trail. Bank of America, with more than 850 branches, has expanded its franchise into other Western states and consolidated its leading position with purchases in Washington state and California. Last June Bank of America bought the retail operations of Arizona's Western Savings, an $80m deal that not only illustrates the success of Bank of America's recent turnaround, but gave the bank 61 branches in the Phoenix area. Other S&L acquisitions are under way as Bank of America and other banks buy the institutions "clean" of bad loans and associated problems from the Resolution Trust Corporation (RTC), the federal agency charged with rescuing S&Ls.



Glyn Genin

The real estate market in downtown Los Angeles has slowed down

Security Pacific, for example, last June paid $142m for Gibraltar Savings, a California S&L with 83 branches and $3.9bn of deposits. In September Secpac bought 24 branches of the failed Mercury Savings & Loan, paying $44m to acquire these plus $1.4bn of deposits.

Mr Robert Smith of Secpac says the strategy is to buy the S&Ls and convert them into commercial banking operations. "You can't move market share, but you can buy it and that's why it makes economic sense. Our experience with the S&Ls has been better than expected. We've been able to retain a greater proportion of deposits than we thought and a better quality of customers than we expected."

The original incentive for California banks to expand, acquire and consolidate their positions was the fear of what might happen with the opening up of the California banking market to out-of-state banks in 1991. The Fed's Mr Parry said there was a time when "we thought the New York banks would be in here with both feet". All such fears are gone now, thanks to the California banks' aggressive moves.

Lest all of this sounds too good to be true let it be clear that all regulators, analysts and bankers are inserting one key caveat into their optimistic forecasts – the caveat is that California's underlying strength could still be affected if a nationwide recession proves deeper than expected next year. This notwithstanding, the general view is best summed up by Bank of America's Mr Sanborn, who says: "I think it is still going to be the Golden State for bankers. We're just going to have to work a bit harder for a year or two."

Martin Dickson discusses the big "if" in the long-term economic outlook

# The brakes are on in America's fast lane

WHEN the American economy catches a heavy head-cold, California becomes inconvenienced by a sniffle.

So over the next year or so, as the US teeters on the edge of recession, the state's economy will be showing markedly slower growth than the rapid expansion which characterised the 1980s – and, indeed, many decades before that.

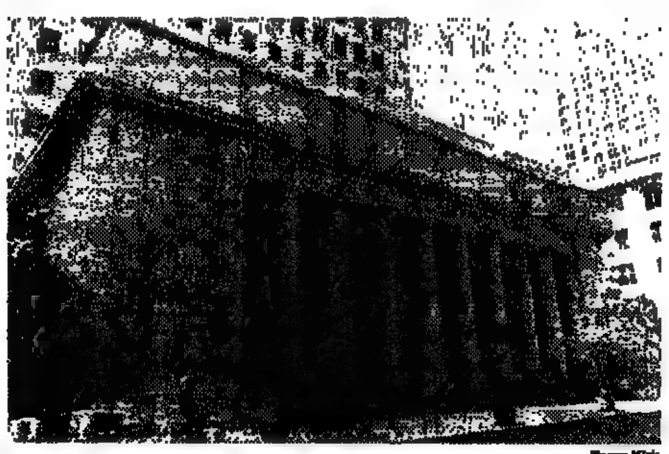
But its short-term performance will still be better than most other regions. And most economists believe that over the longer term California should retain its reputation as America's golden economy – if it has the political will to address some potentially serious constraints of infrastructure and human skills.

But that is a big if. And the more pessimistic warn that, given the much tougher international competition facing many of California's industries, future growth will not be nearly as effortless as before.

For the past half century California has been the most dynamic part of the American economy, blessed by unusually rich natural resources, booming industries at the forefront of technology, (especially since the Second World War), entrepreneurial attitudes, and a benign Mediterranean climate and relaxed lifestyle attractive to immigrants.

The statistics are breathtaking. It now ranks sixth in the world's league of economic powers, producing more than $675bn of goods and services last year. Before the turn of the century it is expected to overtake France in fifth position. Between 1979 and 1988 California created more than 2.6m new jobs, or about one in six of the US total, while job growth averaged 2.4 per cent a year, against a national average of 1.7.

California is not only the leading US manufacturing state but it is also first in agricultural output, first in entertainment services, and fourth in oil and gas production. It still leads the world in many high-technology fields, has a very important lumber business, and occupies a crucial trading position on the edge of the fast-growing Pacific Rim.



Terry Kirk

California is sixth in the world league of economic powers

However, the next year or two will see less dramatic progress as the slowing of the US economy hits demand for Californian goods and services. On top of that, the state has some particular problems of its own.

Cuts in the national defence budget following the collapse of the Soviet empire will hit California particularly hard, since it accounts for about a sixth of the Pentagon's budget. Indeed, a sharp reduction in defence spending between 1969 and 1971 plunged the state into recession.

This time, however, the problem will not be nearly so severe, for in the past 20 years the economy has become far more diverse. Defence only accounts for some 8 per cent of jobs, down from more than 14 per cent in 1970. And although orders for military aircraft have been dropping, there is still strong world demand for commercial aircraft.

Other local difficulties include a four-year drought which is already starting to constrain a strong recovery in the agricultural sector. This could grow much more serious next year if the rains fail again. Over the longer term, farmers' yields could be threatened by Big Green, a proposal on next month's election ballot, to ban a wide range of pesticides.

A great unknown, as everywhere else, is the impact of the Gulf crisis and higher oil prices on growth, but here again California should suffer less than other states. For one thing, it has a much warmer climate. For another, it has many more fuel-efficient Japanese cars on its roads.

Similarly, the property market is in much better shape than the depressed eastern seaboard. The commercial sector is depressed, with substantial excess capacity, and the price of residential property has been falling, but not precipitously. Indeed, the softening of the homes market is a useful correction after several years of sharp increases in the mid-1980s.

The unemployment rate is mounting – it could reach 5.7 per cent next year, compared to 5.1 per cent in 1981 – but the consensus among economists is that the state will avoid the negative growth rates likely in many other parts of the US.

Mr Joseph Wahed of the Wells Fargo Bank reckons that some 300,000 jobs, or 2 per cent, will be added to the labour force in 1990, down from the 500,000 increase seen in 1989, but that in 1991 another 340,000 jobs will be created, giving a 2.3 per cent increase. Personal income is expected to grow 7.5 per cent this year to $622.7bn, and a further 7.4 per cent in 1991.

Many economists argue that this slower rate of advance is welcome, so the state can ease some of the infrastructure stresses and strains which emerged during the extraordinary growth spurt of the past decade.

During the 1980s the population of California grew by some 6m people – far more than any other state ever added in such a short time – to 30m, and half of the newcomers were recent immigrants, mainly from Mexico and Asia.

At a time of budgetary constraints, all this has imposed great strains on the infrastructure. The most intensive growth has occurred along the Pacific seaboard around the sprawling metropolises of San Diego, Los Angeles and San Francisco, creating severe road traffic congestion, dreadful air pollution, high housing costs and extremely long commuting distances – up to two hours in each direction. And while California can boast one of the finest university systems in the US, its primary and secondary schools, in common with much of the US, have standards well below those of leading competitor nations.

So, while the economy as a whole has grown rapidly over the past decade, productivity growth (in common with the rest of the US) has been limited. According to a study by the California Economic Development Corporation, between 1986 and 1989 real per capita income rose less than 0.6 per cent annually. "Alarmingly," says the report, "California has begun to lose its edge in high-tech manufacturing."

Furthermore, the population pressures will continue for at least the next two decades. For while quality of life issues might be driving a few people away from the state, the continued creation of jobs is going to bring millions more in. According to Mr Stephen Levy, of the Center for the Continuing Study of the California Economy (CCSCE), the population will rise to around 35m by 2000 and 40m by 2010, though there will be a marked slowdown thereafter and the total might never reach 50m.

At the same time, the ethnic composition is changing rapidly. Hispanics, Asians and Blacks now make up some 40 per cent of the population, and by 2000 they will account for half. Optimists say that gives California the chance to create the world's first genuine multi-ethnic industrial society. Pessimists say low educational achievement among the minorities could drag the state in the direction of the Third World.

Some of the problems created by rapid population growth are self-correcting. For example, contrary to the impression created by the suburban sprawl of greater Los Angeles, California is not a densely populated land. Italy, with a similar climate, holds 60m people in an area two thirds the size.

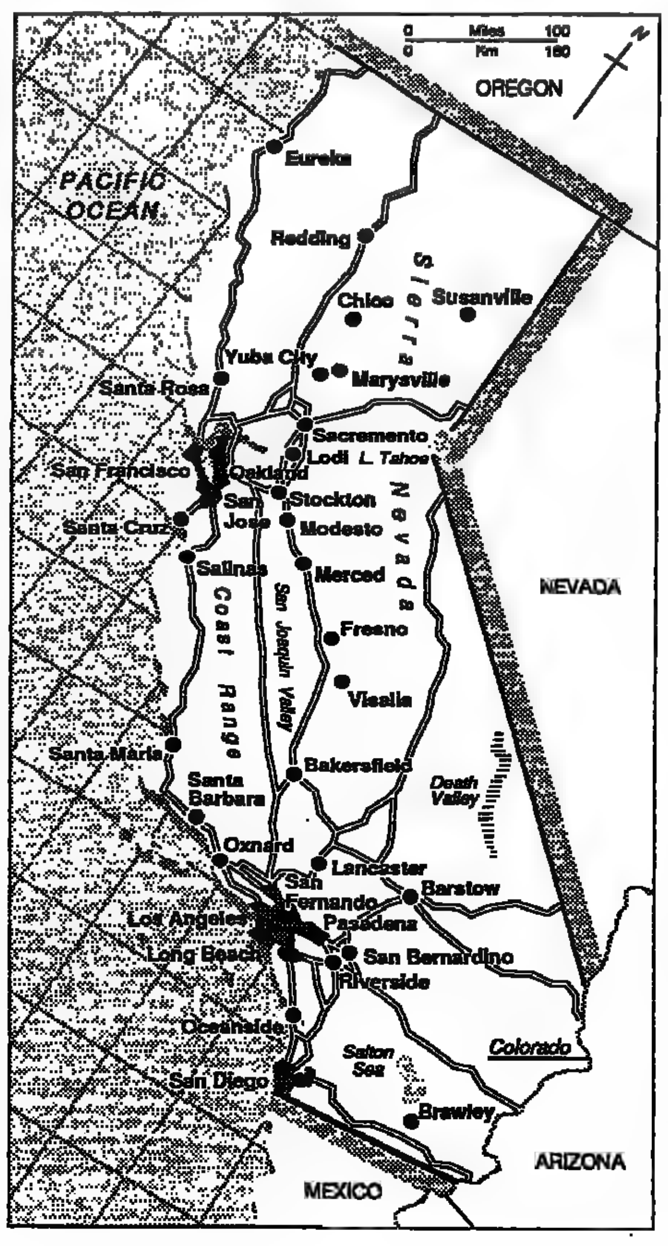
Urban and industrial development will simply have to spread inland from the densely populated coastal belt, as indeed it already is. One of the fastest growing centres is Sacramento, the state's once sleepy capital, which is surrounded by the endless farmland of the Central Valley.

Other problems are being tackled by policy makers, such as a $18.5bn long-term transport improvement plan and much stricter limits on car exhaust emissions. But the schools system still lacks a strong policy initiative. And the 1990s are likely to see significant policy conflicts over the environment and the allocation of resources in short supply, notably water and prime agricultural land.

While California is debating these issues, economic development will keep rushing along. CCSCE, for example, forecasts that between 1988 and 2000 the state will add nearly 3.5m jobs, a rate of growth of more than 25 per cent, compared to a national average of 15.6 per cent. It will be helped by two important trends. One will be a sharp increase in production by high-technology industries. The other will be a large increase in international trade, particularly with the Pacific Rim.

But to ride these waves successfully will require a more highly educated work force, at a time when four out of five entrants to the labour pool will be minorities, half of them recent immigrants. Unless the state can radically improve its educational standards, the 1990s could leave the average citizen little better off than today – and tarnish California's golden image as it enters the 21st century.






Foreign trade and investment

# Eyes turn to Europe again

REACH for a telephone book in your San Francisco hotel and you may accidentally pick up the "Japanese Visitor Resource Directory", a yellow pages-style guide book written in Japanese. Take a walk through the streets of the city and you can pass in quick succession a luxury Japanese-owned hotel, a far from affluent Vietnamese quarter and souvenir shops peddling T-shirts emblazoned with oriental script.

You do not need to be a detective to spot superficial signs of the rapid intertwining of the Californian and Pacific Rim economies over the past decade.

Statistics tell the same story: the Pacific Rim has been the fastest growing market for US foreign trade generally over the past 10 years and California has captured an above average share of it. That is hardly surprising, given that its ports are leading West Coast points of entry and exit, accounting for some $157bn of trade last year, while the domestic Californian economy is the largest, and among the most dynamic, in the nation.

At the same time, there has been a rapid build-up of Asian, particularly Japanese, direct investment in the Californian economy during the past 10 years. The latest examples include the takeover of the celebrated Pebble Beach golf complex, near Monterey, by a Japanese-led group of investors for a rumoured $1bn; and negotiations by Matsushita to buy MCA, the entertainment group, for up to $7bn.

The growth of Pacific trade and strong inward investment – by US and European groups as well as Asian ones – go hand in hand. As Mr John Wilson, chief economist at Bank of America, points out: "With trade shifting from the Atlantic to the Pacific, US manufacturing increasingly needs to be located on the West Coast rather than the East Coast."

Yet despite these trends, Californians are also rediscovering Europe as an export market and source of investment. "Pacifico-mania crested here in the mid-1980s and people began to turn their attention to Europe," says Gregory Mignano, director of the California State World Trade Commission. Another sign of this is the recent formation of a ginger group, the California Council on Europe, which aims to inject a specifically Californian contribution into debates on American-European relations.

Mr Mignano says the renewed interest stems partly from the 1992 creation of a single European market and the more recent opening up of the Soviet empire. In addition, publication of a new series of trade statistics – showing US exports by state of origin, rather than port of exit – have revealed that Europe is far more important as a Californian trading partner than previously thought.

The new statistics, while still far from completely reliable, indicate that California's exports to the European Community have grown by 50 per cent since 1987, from $7.6bn to $11.4bn, with Britain and West Germany the leading destinations. Trade with the EC made up more than 26 per cent of California's total exports of $43.4bn last year.

However, Japan remains by far the largest single export market, accounting for some $8bn of trade last year, and the Asia-Pacific region (including Australia) is the biggest regional market, making up some 48 per cent of export business. Sales to the region grew by 63 per cent from 1987 to 1989.

The state's leading exports are general machinery ($10.7bn in 1989), electrical equipment ($9.1bn), transport equipment ($6.1bn) and precision instruments ($3.8bn). Agriculture is also a big exporter, although the $3.5bn shown by the statistics significantly understates its contribution.

Reflecting the high-tech nature of the largest export groups, some 60 per cent of California's shipments go out by air, compared to a US average of 28 per cent.

California is also the leading US state for foreign direct investment, followed by Texas and New York, and the state's trends match national activity closely. Figures from the Department of Commerce in Sacramento show that between 1977 and 1987 California represented a fairly constant 10 to 11 per cent of employment by foreign affiliates.

**Exports to the European Community have grown by 50 per cent since 1987**

However, the composition of the investment is markedly different from elsewhere in the US. In California, Japan has emerged as by far the largest investor. Its companies held interests with some $8.1bn in gross book value in 1987, ahead of Canada ($6bn) and the UK ($5.4bn).

A second distinguishing feature of foreign investment in the state is a much greater concentration on non-manufacturing interests than in the nation as a whole. Japanese companies, in particular, have been very big buyers of Californian banks and real estate.

The build-up of foreign investment is set to continue at a rapid pace. First, there is California's attraction as one of the most dynamic parts of the US economy with a ready supply of both highly-qualified manpower and blue-collar workers.

Second, locating here gives immediate involvement in the links between California and Asia, which will continue to grow rapidly. Up to 30 per cent of students at some MBA classes are now of Asian origin.

Third, California still gives access to an unrivalled pool of high-technology know-how, be it on the university campuses of Stanford, Berkeley and UCLA, in the military and defence industries around San Diego and Los Angeles, in Silicon Valley south of San Francisco, or the state's fledgling bio-technology industry.

Martin Dickson

## KEY FACTS

| | |
|---|---|
| Governor | George Deukmejian (Republican) |
| Area | 411,409 sq km |
| Population | 29.063m |
| Population as % of total US | 11.7% |

**ECONOMY**

| | 1988 | 1989 |
|---|---|---|
| Gross state product ($bn) | 636.2 | 667.1 |
| Real gross state product growth | +4.5% | +3.2% |
| Personal disposable income per capita | $16,059 | $16,779 |

| Gross state product by sector... | |
|---|---|
| Manufacturing | 20.7% |
| Electrical, electronic equipment | 4.0% |
| Air, space, other transportation | 3.0% |
| Motor vehicles | 0.3% |
| Services | 18% |
| Health services | 4.6% |
| Educational services | 0.5% |
| Finance, insurance, real estate | 16.0% |
| Real estate | 12.0% |
| Banking | 1.5% |
| Retail trade | 10.6% |
| Wholesale trade | 8.0% |
| Government | 10.7% |

| | 1988 | 1989 |
|---|---|---|
| Budget surplus as % of GSP | +0.2% | -0.1% |
| Total state expenditure ($bn)* | 42.120 | 47.832 |
| Total state revenue ($bn)* | 43.287 | 46.927 |
| Income taxes as % of revenue | 36.7% | 37.0% |
| Retail sales taxes as % of revenue | 29.2% | 29.5% |
| Exports as share of all US exports | 16.7% | 16.7% |
| Imports as share of all US imports | 19.6% | 18.4% |
| New business starts | 58,653 | 52,518 |
| Total new business starts 1980 to date | 529,130 | 581,648 |
| Employment growth | +3.4% | +2.5% |
| Retail sales growth | +2.3% | +4.1% |
| Housing starts | 242,000 | 232,000 |
| Housing sales | 563,000 | 539,000 |
| New car sales (registrations) | 1.44m | 1.46m |
| Unemployment | 5.3% | 5.1% |

* Financial years 1988-89 and 1989-90. Figures for 1989-90 are estimates.

Sources: California Department of Finance, Federal Reserve Bank of San Francisco, Goldman Sachs.

Wine growers fear higher taxes, tighter rules

# Two propositions with a sour taste

A GLASS of merlot in his hand and a badge saying "No 134" on his chest, winemaker Michael Weis looks out across the vine-covered expanse of California's Napa Valley and says angrily: "We've spent 30 years trying to get to wines that can compete with the best in the world, and now we're shooting ourselves in the foot. Its insane."

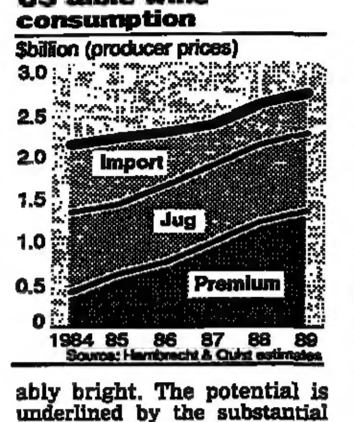
Mr Weis, general manager of the Robert Mondavi group's Vichon winery, is furious - as is the entire Californian wine industry - at two propositions, or referendum proposals, on next month's state ballot paper.

Proposition 128, or Big Green, might eventually ban pesticides used by the industry, pushing up costs and lowering yields. But the more immediate threat is Proposition 134, which would increase the state tax on table wine from 1 cent a gallon - a level set in the 1930s - to a swingeing $1.29.

The industry, which fears possible copycat action by other states, is backing a rival plan for an increase to just 20 cents a gallon.

Approval of 134 could lead to a sharp drop in local demand for wine, which the industry claims would force plant closures and lead to job losses. That would accentuate what many believe is a substantial shake-out already facing the industry.

Yet despite these tribulations, the future looks reasonably bright. The potential is underlined by the substantial investment in the industry over the past few years by foreign drinks groups, including Britain's Allied-Lyons and Grand Metropolitan.




The Californian industry, which accounts for some 90 per cent of US wine output, can trace its origins to the viniculture of Spanish Franciscan monks more than 200 years ago. But it is only in recent decades that production has risen sharply, as Americans have developed a greater taste for wine. California shipped 412m gallons in 1988, compared to 298m a decade earlier, while the number of wineries has risen from 160 in 1975 to some 575 now.

At the same time, Californian wineries have been gaining an international reputation for quality products and technical innovation, although only some 5-6 per cent of their output is currently exported. " California, in terms of viticulture and oenology, is to the world of wine what the Japanese are to the auto industry," claims Mr John De Luca, head of the Wine Institute, an industry trade body.

However, the past few years have seen a dip in US wine consumption, due in part to a much greater emphasis on health and an anti-drugs and alcohol crusade which is also reflected in Proposition 134, which earmarks a lot of the funds raised by higher taxes for drink and drug programmes.

Some analysts have suggested that this means a dim future for the industry, although a closer examination of the statistics does not support this. Jean-Michel Valette, an analyst in San Francisco with securities house Hambrecht & Quist, points out that the volume decline obscures a fundamental long-term shift in the market. The US consumer is "trading up" - moving from consumption of low-priced "jug" wines, which come with a screw top, to "premium" wines which are of better quality, more highly priced and come in bottles sealed with cork.

In other words, people are drinking less, but are drinking better and while Californian producers may be selling rather fewer bottles, their revenues and gross profit margins have been rising. Mr Valette estimates that US industry revenues rose from $2.2bn to $2.8bn between 1984 and 1989.

Robert Mondavi Winery: played a large role in promoting Californian wines abroad

That said, over the next few years many premium wine growers are going to see a dip in profits for some grape varieties because increasing acreage, coupled with two very good harvests this year and last, are creating excess supplies.

However, the premium sector divides into three distinct categories, each with their own markets, and the oversupply will mainly affect the bottom end of the range, for "popular premiums" which sell for between $3 and $7 a 750ml bottle. Prices in the super-premium range ($7 to $14) should be more stable, while ultra premium wines, selling for $14 or more, should see prices rise, says Mr Valette, since demand here is growing at double digit rates.

The popular premium market, the largest of the three categories, is dominated by large groups which have the marketing clout to sell to a trade increasingly dominated by supermarkets and discount chains. Gallo, California's biggest winemaker, and also one of the most secretive, emerged last year as the leader in this market, successfully making a leap across from jug wines.

In the super and ultra brackets there is a mixture of small, boutique winemakers and larger manufacturers (including the new foreign investors). The big firms are playing increasingly important roles, since new technology has allowed them to make fine wines on a much larger scale while their capital strengths allow them to invest in the best equipment and substantial sales forces.

For example, the Robert Mondavi group, headed by the eponymous veteran Californian winemaker, has grown over the past 24 years to be one of the larger wineries, yet makes what are generally considered some of the state's most attractive wines.

Mondavi has played a particularly large role in promoting Californian wines abroad. It now exports some 9 per cent of its output, but expects this to grow to more than 20 per cent by the end of the decade. Mondavi, and others in the industry, see particularly good growth possibilities in Japan, where wine now accounts for only 1.5 per cent of alcoholic beverage consumption.

**Martin Dickson**

**Alan Friedman** discusses environmental pressures on oil industry

# Energy takes on a green tinge

CALIFORNIA is the home of three of America's biggest multinational oil and gas companies – Chevron of San Francisco and Arco and Unocal of Los Angeles. It is also the third biggest oil producing state in the US, after Texas and Alaska, accounting for 11.9 per cent of total US production.

The state, with its vast and diversified economy, is also a giant consumer of energy. Although its population is roughly half that of the UK, California consumes 1.6m barrels of oil a day, which compares with average UK daily national consumption of 1.7m b/d.

California actually produces 1m b/d, some 80 per cent from onshore fields. The 600,000 barrel deficit is made up by imports from Alaska and the Middle East, with the overwhelming proportion from Alaska.

As a refiner California accounts for 14.4 per cent of total US capacity, spread out at 30 operating refineries in the state.

But if the Golden State is a gigantic producer and consumer of energy products it is equally the most fertile ground in the US for environmental protest and strict regulation of the oil and gas industry. The ecological safety movement is mainstream politics in California, especially in the wake of last year's Exxon Valdez oil spill disaster in Alaska.

Mr Robert Wycoff, president of Arco, admits the Exxon disaster "heightened everyone's sensitivity" and agrees that "we need to take a greater degree of caution to try and improve our safety records". He cites the Arco practice of now escorting all tankers with two tugboats or with vessels that have oil spill equipment on board as the company moves oil from Alaska's Prince William Sound.

In broader terms Mr Wycoff boils the situation down to its barest essentials and says: "The political environment in California now prevents any meaningful exploration for new reserves in the state."

Across the street from Arco headquarters in downtown Los Angeles, Mr Richard Stegemeier, chairman and chief executive of Unocal, says bluntly that "the environment is the single most important issue facing our company in the next decade".

The Unocal chief says the environmental debate will "have a very large effect on our capital spending" and that "obviously environmental expenditures will be passed on to the consumer".

More specifically, he declares it "inconceivable that new refineries will be built in California because of environmental restraints".

In San Francisco, Mr Will Price, president of Chevron USA, the largest California-based oil and gas company, speaks of little besides the environment and says he is currently spending 60 per cent of his time on environmental questions.

What, then, are the main environmental concerns of California's oil men? The recent decision by President Bush to approve a 10-year moratorium on new oil leases in federal waters off the California shore is one big source of irritation for the oil industry. But each of the big three California-based oil companies has its own special environmental bugbear and its own public relations response.

The entire California oil industry suffers from the bitter memory of a 1969 Unocal blowout off the coast of Santa Barbara that fouled local beaches. Chevron, meanwhile, faces the most controversial single issue today, the mothballed Point Arguello offshore pumping platforms and onshore Gaviota oil and gas processing plant near Santa Barbara.

This issue is at the heart of the battle between Big Oil and the environmentalists in California. The Point Arguello field, discovered nearly 10 years ago, is the biggest domestic oil field found since the discovery of Prudhoe Bay in Alaska in 1969. Chevron and 17 other oil and servicing companies have invested $2.5bn in developing the complex of three offshore platforms, connecting pipelines and onshore processing facilities. It is estimated to have more than 300m barrels of recoverable reserves, capable of producing nearly 100,000 b/d when fully operative.

Point Arguello is, however, anything but operative. It has been blocked by a string of lawsuits, local community protests, environmental objections and California coastal commission rulings – all based on fears of an environmental disaster.

Chevron says the fears are irrational, but the company has written off $445m of its $780m portion of the $2.5bn investment. Mr Mike Marcy, a Point Arguello specialist for Chevron in Ventura, California, says: "We're never going to make a dime on Point Arguello. This project will never be in the black. At this point we are just seeking some cash flow, simply trying to secure the crude we had already planned for our refineries."

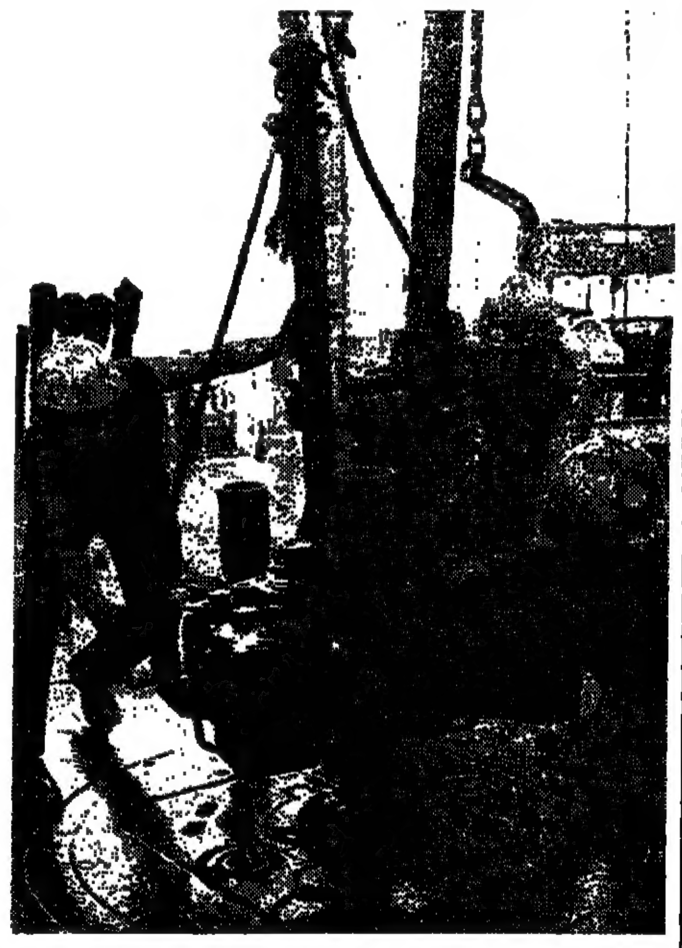
Chevron's Mr Price smiles wearily and then grimaces when asked about Point Arguello. He says the issue that separates the company from environmentalists is how to transport the oil to the company's El Segundo refinery in Los Angeles. Various tanker and pipeline proposals have been stopped and the newest compromise proposal is a special pipeline that would run along a railway track.

Arco's Mr Wycoff has a similar problem. The company has a 100m barrel offshore field – called Coal Oil Point – north of Santa Barbara, but has been unable to develop it because of environmental objections.

Unocal's Mr Stegemeier is worried about the cost of the new Clean Air Act for his refinery operations. He says that California laws that require reduced hydrocarbon emissions from refineries could cost Unocal more than $100m in compliance charges. Each of the companies has its own way of approaching the issue, with the principal public relations thrust being an attempt to paint themselves green in dozens of television and print media advertisements.

Arco was the first California company to launch last year a new reformulated petrol, called EC-1, which was followed this past September by a new unleaded premium product. The new gasolines contain methyl teriary butyl ether, known as MTBE, an additive that helps convert carbon monoxide into carbon dioxide.

Chevron has also introduced specially reformulated petrols, but the company has gone much further to get its message across. It says it is spending $300m a year on capital projects to achieve compliance with environmental guidelines and rulings. The company also recently produced its first-ever annual report on the environment, a slick green-coloured screed printed (naturally) on recycled paper. Chevron and other oil companies are also working with Detroit car makers to examine technologies that could lead to less pollutant petrols and less pollutant vehicles.



Santa Barbara oil platform: 1969 blowout remembered

The prize for the most original – and the cheapest – oil company gambit to win the hearts, minds and pocketbooks of Californian consumers was Unocal's SCRAP programme, launched earlier this year.

SCRAP saw the company putting up $5m, hardly a great deal for a multinational with $11bn of annual sales, to persuade car owners to bring in pre-1971 model cars (the most egregious polluters) and receive $700 per car. The cars, some 8,000 in all, were then scrapped by Unocal.

Mr Stegemeier of Unocal says these old "clunkers" are the biggest contributors to smog in Southern California.

Each company has its own way of addressing the environmental issue, but none of the schemes is likely to head off much tougher emissions control standards that state legislators and regulatory bodies are planning. For the environmentalists, Big Oil is now firmly on the defensive.

POLITICS

# Back to the mainstream

IN "The Candidate", still one of the best films ever made about modern American politics, Robert Redford is forced at one point to define his own philosophy. "We must never forget," he says, "the essential indifference which made this country great."

The response is semi-serious; and it captures California, where politics is often seen as a (sometimes necessary) intrusion into the business of making money and enjoying life. In the 1980s, a period of great prosperity, voters' inherent suspicion of politicians and politics has degenerated into apathy, inertia, even resentment, especially towards a lethargic state government.

It was not always so. From the Sixties counterculture and the Ronald Reagan-led conservative backlash, to the 1970s Jarvis-Gann tax revolt and the spiritual environmentalism of Governor Edmund "Gerry" Brown, California acted as a trendsetter for the rest of the nation. The question for the 1990s is: can California reclaim the political leadership role which its wealth and size suggest it deserves.

It is tempting to see this year's race for governor between Senator Pete Wilson, a former mayor of San Diego, and Mrs Dianne Feinstein, a former mayor of San Francisco, as a turning point. The election campaign itself is predictably expensive ($25m, plus) and predictably nasty. Those despairing about the quality of debate have begun to complain there are no real differences between the two candidates: both are former big city mayors, both remarried, both have younger spouses; and both are 5ft 10in tall.

In fact, the similarity between the candidates is precisely what makes them interesting. However bland and boring Mr Wilson may be – most people reach for the Mogadon when he picks up a microphone – his pro-choice, pro-environment, pro infrastructure views make him a very different Republican to the tax-cutting Reagan conservatives, the one-time innovators who these days look distinctly dated. Mrs Feinstein is also running against type.

A fervent advocate of the death penalty, Mrs Feinstein is doing her best to kill the old Republican charge about "liberal Democrats". So far, she seems to have overcome three handicaps in running for state-wide office ("she's a woman, she's Jewish and she's from San Francisco", explained one Democratic official). And though it is unclear how far she has mastered the substance of state-wide politics, Mrs Feinstein has one characteristic which has been lacking in politicians over the past ten years: celebrity status.

A victory in November would immediately establish Mrs Feinstein (who made the short-list for Mr Walter Mondale's running-mate in 1984) as a significant national figure. Having become the first-ever woman to seriously run for California governor, she might even be tempted to run for president in 1996. Mr Wilson almost certainly entertains similar ambitions.

It would be foolish to write off either candidate. As a result of the 1990 census, the electoral arithmetic for presidential elections will tilt in California's favour. The increase in population may create seven new Congressional seats. This would bring the state's total in the House of Representatives to 52 seats, roughly one eighth of the total. By any measure, the increase offers a tremendous launch-pad for a presidential campaign (particularly if the state could get its act together and push for an early election year primary near Iowa and New Hampshire).

The immediate prizes, of course, lie at the end of this year's governor's race. The most important is the ability to influence the state electoral boundaries which are being redrawn to take account of the census. A Wilson victory would allow him to block efforts by the Democratic state legislature to repeat their shameless gerrymandering exercise of 10 years ago; a win by Mrs Feinstein would virtually end Republican hopes of mounting an electoral comeback in California, a bitter blow for a party which rightly believes it enjoys broad appeal.

Both Mr Wilson and Mrs Feinstein would face similar problems with the lethargic state legislature. After the somnolent tenure of Governor George Deukmejian (who until recently refused to own a passport), either candidate would doubtless come across as dynamic. But they would still have to prove the more questionable assumption that state government in California really can work.

The record in the past decade is that the state government has found it near impossible to deal with major issues – from insurance to tax increases to the environment (though here the record is marginally better). Elected officials have preferred to abrogate responsiblity to the "Proposition" process, the popular California-style referendums or citizens' initiatives. This November, around 150 such Propositions are on the ballot, covering the environment (Big Green) initiative), crime, ethics, drug enforcement and term limits for elected politicians.

Governor Deukmejian: somnolent tenure

The term limits initiative (Proposition 131) is way ahead in the polls. If it does pass, there will no better commentary on the contempt with which the voters view their own legislature, where well-financed incumbents have a better shot being elected these days than Mr Gorbachev's colleagues on the Central Committee.

But significant doubts remain about where the process is headed: term limits take no account of the value of experience and could leave members even more dependent on powerful lobby groups.

A more optimistic view suggests that change will come, if only because several long-standing political figures are due to stand down in the next year or so. Mayor Tom Bradley of Los Angeles will move aside after almost 20 years in the chair, raising the possibility of a Hispanic or Asian successor. Mr Alan Cranston, the state's senior US Senator and Democrat, is suffering a political meltdown as a result of his savings and loan ties. He has no chance of winning a fifth term. Watch out for a strong challenge from US Congressman Robert Masui, a talented Japanese American, and – yes – maybe even ex-Governor "Moonbeam" Brown's resurrection.

The power of personalities and celebrities in California politics as motors of change should never be underestimated. Remember Ronald Reagan.

**Lionel Barber**

**Lionel Barber** traces the changing demographics and highlights the social problems

# White-based melting pot poses a challenge

TAKE a drive through central Los Angeles on a Sunday afternoon and you catch the full impact of post-European society in California.

In MacArthur Park, the streets are packed with Salvadorans, refugees from the civil war; in Koreatown, row upon row of mom-and-pop grocery, radio and acupuncture businesses testify to a hard-won respect, if not yet prosperity; in the old centre of town, past Skid Row and the gleaming glass towers of the financial district, the sights and sounds might as well be Mexico.

Welcome to what Mr Bill Bradley, the Sacramento-based political analyst, calls the United States of California. Sometime soon white Americans will become a minority group in California; and the result, it is fair to say, will test California's ability to operate as a truly multiracial society.

The change in ethnic mix will touch every aspect of society, from politics and education to industry and culture. It will disrupt cosy urban political coalitions, stretch an already hard-pressed public schools system, transform the workforce, and challenge the population to forge, perhaps, a new post-European identity.

Says Ms Linda Wong, president of California Tomorrow, a public policy group helping the state make this adjustment: "Race relations used to be black versus white. Now it's Hispanics, Latinos, Asians and eight or nine other groups. We have to develop a whole new set of political and social relationships."

The demographic shift is a relatively recent phenomenon, the result of a surge in immigration since the mid-1960s among Hispanics and Asians who came to California as economic or political refugees in search of a better life. The trend is certain to continue: between 1987 and 1995, California's population will jump slightly more than 17 per cent to nearly 32m, according to a 1988 study by the Palo Alto-based *Centre for Continuing* Study of the California economy. (The US as a whole is expected to register population growth of 6.9 per cent.)

California's *ethnic* composition will change substantially: the Latino population is expected to grow to 7.6m, an increase of nearly 70 per cent; the Asian population is set to rise to 3.8m, an increase of 140 per cent. The Anglo element will also rise, but it will decline as a percentage of the total – from 66.6 per cent to 57.5 per cent.

**Sometime soon, white Americans will become a minority group in California**

Immigration has been, of course, one of the driving forces behind California's prosperity. The influx of cheap labour has helped manufacturing in the state remain competitive when other regions – notably the north east and mid west – have struggled to maintain their industrial base. This was by no means an exploitative process: the abundance of blue-collar manufacturing jobs in California provided a traditional route for *immigrants to move* up the social ladder and join the so-called middle class.

The problem is that many of these blue-collar jobs are disappearing. The accent is shifting towards white collar, service industries which require far greater communications skills. Given the fact that more than 80 per cent of the labour force and school enrollees in the 1990s will be Hispanic and Asian, experts such as Ms Wong believe the state must move fast to make the necessary policy changes.

In the 1990s, 42,000 additional teachers and classrooms and 2,100 new schools in will be needed. Throwing more money at education is no answer, but as the Centre for Continuing Study of the California Economy notes in its latest report: "Keeping real education expenditures per student from falling is at least a minimum criterion for success."

The California Economic *Development Corporation* (CEDC), a public private sector group, called recently for an overhaul of primary and secondary system through greater *parental choice*; rewards for schools who do well; closer ties with employers; and decentralisation and a reduction in state regulation of schools.

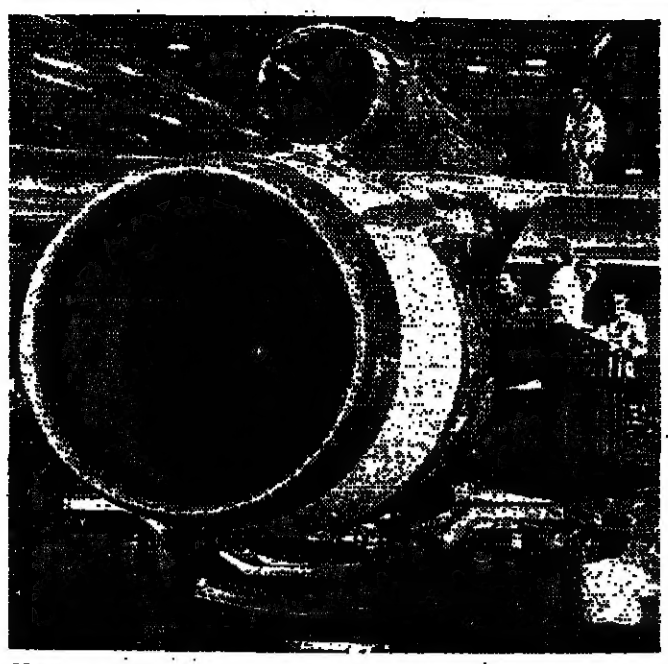
Mr Bill Honig, the widely praised state superintendent of public instruction, places strong emphasis on "core" subjects such as English, maths, history and science – but he concedes that the school system must improve its special programmes for minorities, such as bilingual education.

Bilingual education is far less controversial here than in other parts of the country, where "English-only" movements have flourished. Mr Gaddi Vasquez, 35, an up-and-coming Republican who is the first Hispanic ever to sit on the (elective) Board of Supervisors in Orange County, argues it is often necessary to teach in Spanish to assure reading and spelling skills.

Mrs Christine Vu-Dinh, a Vietnamese immigrant who came to the US in 1966 and is now a successful lawyer in nearby Garden Grove, says Asians are determined to do well in schools but have trouble *adjusting* to the American idea of parental participation. "It's not part of our cultural background. Our view is they teach us, and we listen. We don't butt in."

Ms Wong's group is strictly interventionist. In Compton, on LA's south-west side, they are trying to help the community and school system adjust to a stunning demographic shift whereby a once predominantly black area has become majority Hispanic in the schools. The resulting ethnic tensions have helped create the highest drop-out rate in the southern district and one of the state's worst examination performances. "We're trying to create a new black-latino coalition," she says, "it is an effort to really make a multiracial society work."

The alternative is a Balkanised society, if one is to believe the doomsters. The challenge in the coming years will be to ensure that immigration, so long a force for positive change in California and the US, remains seen to be so; to prove that there is life beyond the white-based melting pot.



McDonnell Douglas: a pit-prop to the economy

DEFENCE AND AEROSPACE

# Arms makers pay the price of Cold War thaw

WHEN Californians boast that their state is as good as recession-proof, they usually have one eye on the highly-skilled, highly-profitable defence and aerospace sector.

For the past 20 years, companies such as Lockheed, McDonnell Douglas, and Northrop have acted as pit-props to the local economy, a source of reassurance when economic adversity has threatened.

No more. More than 15,000 aerospace jobs have been shed over the past 30 months in the Los Angeles region alone. The biggest shock came last summer when Lockheed announced it was closing down its famed "Skunk" works in Burbank, the plant which built the U2 spy aircraft and the Stealth bomber.

Elsewhere, the defence sector is plagued by slumping orders, rising short-term debt and the inevitable long-term adjustments required by changing national security priorities in the US. The collapse of communism in eastern Europe combined with the shift in domestic political emphasis towards education, crime-fighting and health care all augur badly for California's military contractors.

**The Golden State still ranks as the nation's *defence giant***

The Gulf crisis is unlikely to alter the picture. Talk of multi-billion-dollar contracts to US allies such as Saudi Arabia seems inflated, while the Pentagon's spending plans continue to be hemmed in by domestic budgetary constraints. How worried, then, should Californians be about the defence sector in relation to the performance of the local economy?

The quick answer is: not as worried as 1946, when US military spending fell by 90 per cent and some 500,000 jobs were *lost almost overnight*. Nor do people expect it to suffer as much as it did after the Vietnam War, or during the wind-down of the Apollo space programme when 100,000 jobs vanished in southern California.

The Golden State still ranks as the nation's defence giant, bringing in $90bn in military spending last year. The Los Angeles region alone is said to be home to 12 of every 100 people in the US whose livelihood depends on Pentagon expenditure. But California's dependence on defence dollars as a proportion of gross state product has dropped from 14 per cent in 1969 to a mere 8 per cent last year. Thus, California stands only fifth – after Virginia, Alaska, Washington, and Hawaii – among the most defence-driven states in the Union. Even more striking, the proportion of people employed in the aircraft industry has fallen from 11 per cent – one in nine people – to 1.5 per cent in the post-war period.

Dr David Henley, head of the University of California (Los Angeles) Business Forecasting Project, estimates that each 1 per cent cut in real (after inflation) defence spending eliminates 20,000 to 30,000 jobs in California – a genuine ripple effect from the decisions made in Washington DC. But other respected think-tanks' institutes such as the Palo Alto-based Centre for the Continuing Study of the California Economy counter that 3m new jobs will be created in the state by 2000, defence cutbacks notwithstanding. "Diversity is the key," says Mr Frederick Cannon, chief economist at Bank of America in California.

The problem – as Mr Cannon acknowledged during an address at a defence seminar in Sacramento last May – is that the fastest growth in the state has been generated in areas dependent on defence business such as Riverside, San Bernadino and Sacramento itself. Twenty-five per cent of all new housing starts have been registered in the Riverside area in the past three years, according to Mr Cannon.

Dr Loren Thompson, deputy director of national security studies at Georgetown University in Washington DC, points out, too, that individual defence companies such as McDonnell Douglas and Northrop are in a weaker financial state than for many years. Fixed price development contracts – the result of Pentagon procurement reforms in the mid 1980s – have left contractors with heavy short-term debt which may not be compensated by future cash-flow once production starts and firm orders come through.

At Northrop, managers continue to worry about the Bush administration's commitment to the troubled B-2 Stealth bomber (which has already swallowed more than $20bn in development costs). At McDonnell Douglas, accumulated debt is soaring because of the delay in Federal Aviation Administration certification for the MD-11 civilian aeroplane. The troubling conclusion – borne out by the recent lay-offs at McDonnell's Long Beach plant – is that the civilian aerospace business in California is not picking up the slack on the military side, says Dr Thompson.

At the Sacramento seminar – which was sponsored by state government, local contractors and politicians concerned about the prospective downturn in military orders – some speakers argued that companies should consider converting their military plants to civilian use. It soon became clear that enthusiasm for such moves was non-existent among the big defence contractors.

Mr Bob Cannon, a senior Lockheed executive, said defence companies are disinclined to try defence conversion because the two sectors are fundamentally different. The defence business works with a big public sector customer; it is technologically driven; and the need to maintain the technological edge often inflates cost. Furthermore, the aerospace industry is plagued by excessive debt (up 200 per cent since 1985); its stock price (last May) was trading at a 40 to 50 per cent discount to major industrials; and its investors have a lower tolerance to risk. "The message must be to focus on core businesses," he said.

**The aerospace industry is plagued by excessive debt**

So far, so bad. If defence contractors choose to stay put, they face a round of consolidation reminiscent of earlier days when McDonnell Aircraft acquired Douglas Aircraft, and *Electric Boat merged with Con*solidated Aviation to form General Dynamics. Remember: Lockheed's Skunk plant reorganisation – which sent the company's R&D business to Palmdale, California and the C-130 transport aircraft production to Marietta, Georgia, ended up with a net job loss for the Golden State.

The painful truth, says Dr Henley, is that California looks less competitive than in the 1960s: air quality is worse; housing less affordable; traffic bad; and middle class concerns about education and quality of life are stronger. These need to be remedied if California is to retain and expand its defence business.

The conclusion must be that defence is no longer in a position to "save" California during the present economic downturn, local boasts notwithstanding.

***Lionel Barber***

Agriculture faces challenges on every front, says **Martin Dickson**

# Farmers feel under siege

THE Californian agricultural industry is one of the state's most remarkable achievements, but the hard-pressed farmer might be forgiven for feeling that the gods and politicians are ganging up on him.

For the gods have brought four years of drought to California, and this is starting to hit crop production costs and yields, while political groups are seeking a wide-ranging ban on agro-chemicals in next month's general election. Over the medium term this could well add considerably to costs and cut yields.

The farmer, then, feels under siege. For much of this century Californian agriculture has been in conflict with other interests in the state over the use of water, land, migrant labour and the environment.

But the pressures are growing more acute. In the words of a recent survey by the state's Department of Food and Agriculture: "No like period in the past has brought agriculture and its allied industries to confrontation with such a variety of complex and difficult issues."

This said, the Californian farming economy is entering the 1990s in good shape, as it continues its recovery from the recession which hit it between 1982 and 1986 when commodity prices fell sharply.

The bounce-back is due in part to the decline of the dollar – exports have accounted for more than 50 per cent of the increase in sales in recent years – and partly to further increases in output per acre.

Net farm income, which totalled some $4.8bn in 1986, will reach around $7bn this year, according to Mr Frederick Cannon, an analyst at Bank of America. The 1990 figure is some 7.7 per cent above that of 1989, and the increase would be even greater if it were not for the drought.

Farmers can adopt a variety of measures to cope with the surface water shortage. All affect net income, and while the impact in 1990 will not be too severe, a lack of rains in the coming wet season, between October and April, would have more serious repercussions, leading to sharp production cutbacks.

Agriculture has been one of California's most important industries since the 19th Century gold rush and for more than 40 years it has led the US in farm production and income. Only 15 nations can top the value of its annual output.

But it is the diversity as well as the size of the Californian industry that is remarkable. California produces more than 250 different crops and livestock commodities, ranging from strawberries and almonds to cotton and dairy cows.

Why should California be so blessed? The answer is a combination of natural and man-made advantages. Nature provided excellent alluvial soils in the state's bread-basket, the Central Valley and a Mediterranean climate allowing year-round crop production. There are also many micro-climates, permitting a great range of niche crops.

Man added several other vital ingredients: an elaborate irrigation and storage system for supplies of low cost water; almost limitless supplies of high quality migrant agricultural labour from across the Mexican border; an enthusiasm by the farmer to embrace new technology; and great technical and academic back-up expertise in the University of California at Davis, near Sacramento in the Central Valley.

All this has enabled California to emerge as a relatively low-cost producer of a great array of products, and it has increasingly concentrated on high-value fruit and vegetables at the expense of more humdrum commodities and animal feedstocks.

At the same time, the institutional support of federal marketing orders – quasi-governmental systems for orderly marketing – and growers' co-operatives have helped make Californian farmers extremely sophisticated marketers of produce, in the US and abroad.

For example, the US national consumption of fresh strawberries has grown from 1.7lb per head in 1970 to 3.32 last year. Dr Roberta Cook, an economist at the University of California, Davis, says a key to this has been merchandising at the level of the individual store, with representatives around the country monitoring such detailed issues as strawberry shelf positions.

In the international market, the remarkable growth of the almond nut industry is an example of the entrepreneurial Californian approach. It succeeded by targeting countries such as the Soviet Union, where it tried to replace hazel nuts with almonds in the national plan, and Japan, where it successfully introduced this non-traditional nut.

Yet for all its success, the agricultural industry faces challenges on every front. First, there is a growing tussle over the use of water and land with the state's rapidly growing urban population. The population growth which enveloped Southern California and the coastal belt is now spilling over into the Central Valley.

Estimates of farm land being lost to urbanisation vary considerably, but experts reckon some 500,000 acres could go over the next 20 years. And that poses politicians with the awkward, and as yet unanswered question, of how to value the state's unique agricultural economy alongside the demands of town dwellers.

The land base is also under threat from salinity. Irrigated lands can suffer from a rapid build-up of naturally occurring salts when the soils are not well drained.

There is also an increasing struggle for control of water between city and country – a fight which will be further exacerbated if the drought persists.

The California Department of Water Resources estimates that by 2010 the state will be using 4.2 per cent more water, with virtually all this concentrated in the municipal and industrial sectors, while agricultural use will decline.

Yet supplies of water are expected to fall substantially short of this, in part because Arizona will be drawing more fully on Colorado River supplies, reducing the quantities available to urban dwellers in southern California.

To some economists, the water problem is simply one of pricing. Mr Stephen Levy, of the Centre for the Continuing Study of the California Economy, argues that a simple market mechanism, in place of the present extraordinary complex pricing system, would solve the problem.

Linked to the water issue is the industry's use of fertilisers and pesticides, since the appearance of such chemicals in water supplies, albeit in very small concentrations, has helped fuel demands for tougher Government controls.

The strongest manifestation of this is the so-called Big Green initiative on November's ballot paper, which would phase out the use of pesticides "known to cause cancer".

It is impossible to gauge just how this would affect agriculture, since much would depend on precisely what chemicals were covered and how vigorously the programme was pursued. But many economists argue that there would be a substantial adverse impact on yields. If California took this action alone, the state's agriculture would suffer in the domestic and international market-place, since its produce would be less cost-competitive, would look less attractive than that of competitors and would have a shorter shelf life.

Yet this would happen just when the industry is facing a greater marketing challenge than ever before from international rivals.

The industry is so worried by Big Green that it is proposing a rival initiative which would allow a more gradual change in pesticide regulation. Whatever the fate of Big Green, the industry faces greater pressure to restrict chemicals, and will need introduce more sophisticated pest control techniques.

**Louise Kehoe** looks at tourism

# Golden State loses its shine

THE Golden State is one of the most popular tourist destinations in the world, hosting every year well over 100m visitors drawn by California's wealth of natural and man-made attractions.

The state's geographic diversity ranges from Mount Whitney, the highest mountain in the contiguous states, to the Mohave Desert, at 300 feet below sea level the lowest point in the western hemisphere.

The spectacular Pacific coastline – from Mendocino's rugged cliffs, south through Carmel and Monterey, Big Sur and on down to Los Angeles and San Diego's sandy surfing beaches – is a "must see".

Wild-West fans can explore the Gold Country and stay in bare-board hotel rooms in little towns along the "49er trail" travelled by thousands of fortune-seekers in the 19th century.

The natural beauty of the Sierras with Lake Tahoe and Yosemite National Park attract visitors from all over the globe as well as being a regular weekend getaway for San Francisco area residents.

Then there is Disneyland, which draws more visitors than any other single attraction in California, to experience a fantasy land of pristine streets, comic cartoon characters and rides designed for every age group.

Hollywood's Universal Studios is another major draw, with TV and movie sets and its tour of the famous "back lot".

Above all, California guarantees sunshine for at least nine months of the year, and weather that is generally agreeable the year round.

Tourism is the state's third largest industry with annual revenues of close to $50bn which according to the California Department of Commerce supports close to 750,000 jobs, $10bn in payroll, generating more than $2.7bn in state and local tax receipts.

Tourism revenues rose by 10 per cent between 1988 and 1989, and more than doubled since 1980.

However, in line with national trends California has seen a softening in its tourist industry this year. Although no official data are yet available, estimates range from a decline of 20 per cent in some of the worst hit areas , to reports of flat business in other parts of the state.

Concerns about a looming recession and increases in petrol prices have become serious deterrents to travel, tourist industry officials say.

More than 60 per cent of tourists in California are residents of the state, according to the State Department of Tourism. Many are now staying closer to home and attractions that are distant from urban areas, such as Yosemite Park and the Hearst Castle, have seen a noticeable drop in visitors this summer.

Rising airline fares may also be contributing to the slowdown, discouraging out-of-state visitors. Fares have risen by as much as 50 per cent over the past few years on some popular routes and a new round of increases is under way in the wake of the Gulf crisis.

Some travel experts are worried that the changing demographics of the US, with the "baby boom" generation getting older, suggest slower growth in the tourism industry.

California faces increasing competition from less expensive states, such as Colorado and Florida, as travellers become more cost conscious.

California also has suffered from a series of disasters – last year's Loma Prieta earthquake and serious fires in Santa Barbara and Yosemite – that have taken the shine off its golden image. Combined with numerous reports about the state's serious water shortage as well as smog and crime problems in southern California, these events have taken their toll on the tourist industry.

Some parts of the state have been hit far more severely than others. Still suffering from the aftermath of last year's earthquake are parts of the San Francisco Bay area.

Television images of the collapsed San Francisco-Oakland Bay bridge graphically depicted the earthquake's violence to millions of viewers worldwide. In the weeks immediately following the earthquake thousands of tourists cancelled reservations and tourism dropped by as much as 80 per cent.

Terry Kirk

The natural beauty of Yosemite National Park attracts visitors from around the world

State and regional officials responded with a campaign to combat the perception that San Francisco and surrounding areas had been destroyed by the quake. The result, according to San Francisco hoteliers and restaurant owners, has been a gradual improvement to a disappointing but not disastrous year for the local tourist industry.

Largely ignored by the television cameras, and yet hit far more by the earthquake, was the city of Santa Cruz, an immensely popular northern California seaside holiday resort with a famous "beach boardwalk" fun fair.

Santa Cruz felt the full power of the October earthquake. The city's central shopping area was devastated.

Today, gaping holes remain in the Santa Cruz Pacific Garden mall, where buildings have been razed. Other structures, though still standing, are fenced off pending huge structural repairs.

The impact upon remaining businesses is all too evident. The shops are empty. Local police patrol the pavements, moving along a group of ragtag youths who are the only visitors in sight.

In contrast, the streets of San Francisco still seem to be crowded with camera-carrying tourists. The famous cable cars careen up and down the city's hills and visitors crowd the pier restaurants at Fisherman's Wharf.

In the Southlands, the tourism industry hopes to get a boost from Disney's plans to build a second theme park.

In the meantime, many in the California tourism industry feel that the state should increase its promotion efforts to attract more visitors. Last year, California ranked 20th in terms of state spending on tourism promotion with a budget of $6.5m. Hawaii, with a budget of more than $22.5m was the top spender. California's legislature "still doesn't take this industry seriously", one of the state's tourism officials complains.

**Alan Friedman** tours the film lots in America's Tinsel Town

# Hollywood takeover fever

THE big story in Hollywood these days is foreign investment, pure and simple. The flow of foreign billions into the US entertainment industry continues apace, with the latest round of talks – concerning a possible $7bn takeover of Hollywood's MCA by Matsushita of Japan – under way.

The rationale for foreign interest in the US entertainment business may vary from company to company, but in basic terms it is clear US pop culture is in greater demand the world over than ever before and only Hollywood can supply the mass-audience product. In addition, the US view is that only by consolidating the entertainment business into a handful of multinational and multi-media integrated conglomerates can the rising costs of production and marketing be met sufficiently to make the business profitable.

Two years ago Sony of Japan paid the equivalent of more than $5bn to acquire Columbia Pictures and film producers Peter Guber and Jon Peters to run the studio. That deal followed a previous $2bn takeover of CBS Records by Sony, meaning the Japanese consumer electronics group has spent a staggering $7bn on US entertainment industry acquisitions in less than three years.

Mr Rupert Murdoch, meanwhile, acquired Twentieth Century Fox and not only breathed new life into the Hollywood studio – under the leadership of Mr Barry Diller – but also expanded into mainstream US television.

The Fox network, a fledgling US nationwide television network, has proven an incredible success in less than a year, offering blockbuster hits such as The Simpsons, an animated show, and a variety of lowbrow tabloid television products that may offend the intellect, but fill the purse. What is most striking about Fox is that it has actually challenged the traditional titans of the industry – the ABC, NBC and CBS television networks – for audience share.

Mr Murdoch has also thrown his lot in with NBC Television and other partners to try and develop a $1bn Sky direct broadcast satellite US system, a larger version of his UK project. The synergies of having mass broadcasting, video and pay-TV outlets along with a Hollywood studio for film and television programme production are not exclusive to Twentieth Century Fox. Every major studio wants the same.

Aside from the Sony and Murdoch acquisitions there are two other non-US investors ready to step into the picture and buy two more legendary Hollywood studios – Metro-Goldwyn-Mayer/United Artists (MGM/UA) and MCA, the parent of Universal Pictures and MCA Records. The more controversial of the two would-be foreign buyers is undoubtedly Mr Giancarlo Parretti, the convicted Italian financier who has until tomorrow to make good a $1.3bn takeover of MGM/UA. Mr Parretti's vehicle is Pathe Communications, the rump of the former Cannon Pictures that used to belong to Mr Menahem Golan and Mr Yoram Globus, two Israeli B-movie-making cousins.

Mr Parretti was convicted in Naples earlier this year on charges of fraudulent bankruptcy and sentenced to nearly four years in prison, but this has not stopped the man. He is appealing the prison term even as he jets between his $9m mansion in Beverly Hills and his political and business cronies in Italy and France. Mr Parretti's main partner and financial backer is Mr Florio Fiorini, a Geneva-based Italian whose past includes controversial stints as the finance director of ENI, the Socialist-controlled Italian state energy concern, and work as an adviser and deal-maker for Libya's Colonel Muammer Gadaffi.

The seller of the troubled MGM/UA is Mr Kirk Kerkorian, the reclusive Armenian-American casino and hotel mogul who has sold and re-bought MGM/UA assets so many times in the past 20 years that the studio now resembles a barrel of broken assets more than a functioning film entity.

More significant and less controversial than the Kerkorian-Parretti show is Matsushita's interest in buying MCA. MCA last spring embarked upon an expensive acquisition trail itself, paying the equivalent of $545m in stock to buy the David Geffen Company, possibly the most successful independent recorded music business in the world. Mr Geffen had an important European record distribution deal with Time Warner's WEA subsidiary that expires in December – he recently told the Financial Times that negotiations are under way with various potential successors to WEA, including the likely favourite, BMG, the music subsidiary of Germany's Bertelsmann group.

The interest by Matsushita for MCA mirrors the Sony-Columbia deal in many ways. Both Sony and Matsushita are producers of electronics hardware such as video cassette recorders. Both are keen to integrate their businesses with the software side – which in this case means Hollywood movies, television shows and videos from historic archives of film titles.

**It is clear that US pop culture is in greater demand the world over than ever before**

All the actual and potential foreign investors – Sony, Matsushita, Murdoch and Parretti – have another priority item on their collective agendas. This is the desire to feed Hollywood products to the booming European and Asian markets for film and music entertainment. Many US movies will now take as much as 50 per cent of their gross box office receipts outside the United States and the need to internationalise is a business necessity for the 1990s and beyond. The deregulation of European television and the rise of private commercial television tycoons such as Mr Silvio Berlusconi of Italy has fuelled demand for Hollywood products.

Mr Jeffrey Logsden, a leading entertainment analyst at the Los Angeles firm of Seidler Amdec, says all factors bode well for Hollywood, which is using ever greater amounts of capital as movie budgets of $40m to $60m become the norm. For the Japanese hardware companies the issues are how to spur more revenue growth and where to re-invest.

The opening of new markets such as cable, direct broadcast satellite, free private television in Europe and more mean that there is likely to be continuing foreign interest in major acquisitions and smaller independent production deals, Mr Logsden says. Examples of these smaller deals include the recent sale by Carolco Pictures, the maker of the Rambo series of films, of a 10 per cent equity stake to Pioneer Electronics of Japan and 5 per cent to Canal Plus, the leading pay-TV network in France.

In the US, the big merger was last year's $14bn combination of Time and Warner Communications, resulting in the world's biggest entertainment conglomerate. Warner Brothers remains a force to be reckoned with in Hollywood, as does the HBO cable entertainment movie network and the WEA and other record labels. The Time Warner stable also includes Time magazine and numerous other publishing interests. But Time Warner has a fundamental problem – it is called debt.

The Time Warner deal left the group with more than $10bn of debt and this in turn has produced net losses in spite of the underlying profitability of most operating subsidiaries. What to do? Mr Steve Ross, the flamboyant Time Warner chairman, recently claimed he was not worried, but Wall Street has its doubts.

Paramount Communications, another big US entertainment company, has a different problem. Mr Martin Davis, the Paramount chief, last year raised $1.2bn through the sale of The Associates, a financial services subsidiary. Now he is desperate to make an acquisition in the entertainment industry.

Meanwhile, Disney has been enormously successful in building a serious movie production business that goes well beyond the traditional Mickey Mouse image of children's entertainment. It is said that Disney would like to buy a television network, but US laws on the syndication of television shows remain clouded and a debate is raging on their revision.

All in all the message from Tinsel Town is that more money is likely to change hands, and billions of it.

Crisis in high-tech's heartland

# Silicon Valley fights back

HEAD south from San Francisco International Airport. When the traffic grinds to a halt, you are probably in Silicon Valley, northern California's high-technology heartland.

There are no road signs to point visitors toward this famed industrial region and it is not marked on the map. Yet in the past 20 years Silicon Valley has had a remarkable impact upon the economy of the state and even the world.

An expanse of flat-topped industrial buildings and office "campuses", the Valley is not much to look at. Yet the corporate logos displayed on grass verges reveal a powerhouse of technological prowess.

It is here that the first commercial production of silicon "chips" began in the 1960s at companies such as Fairchild Semiconductor, Intel, Advanced Micro Devices and National Semiconductor.

These devices, which are being used to build a variety of electronic products, from computers and video tape recorders to missile guidance systems, have caused an industrial revolution that has changed drastically the economic order of the world and created what is now its largest manufacturing industry – electronics.

In its heyday, Silicon Valley was a manufacturing machine, a conglomeration of unrivalled semiconductor production plants. In the "wild days", as industry veterans refer to the early days of the semiconductor industry, California's chipmakers were highly competitive.

"You didn't want to be seen walking on the same street as your competitor, never mind talking to him," said the late Robert Noyce, co-inventor of the semiconductor chip and the "Father of Silicon Valley", who died this summer.

Today, rival US chip-makers still battle among themselves but their primary competitors are located across the Pacific in Japan and Korea. Faced with a common "enemy" top executives of the leading US semiconductor companies have collaborated with remarkable success in extensive Washington lobbying campaigns.

The industry has also formed a unique research consortium, Sematech, which aims to reclaim world leadership in chip technology.

But Sematech is not in Silicon Valley. After an extensive search for a site for their critical effort to work together, industry executives chose Austin, Texas.

High labour and land costs as well as stringent environmental laws have discouraged expansion of semiconductor production in California and gradually, over the past 10 years, older plants have been closed here. The major chip companies have transferred their manufacturing operations to Texas, Arizona, Oregon, New Mexico and other states. Most are now building plants in Europe and Asia as they focus on foreign markets.

"As a place, Silicon Valley has practically no semiconductor manufacturing any more," observes Andrew Grove, president of Intel, the largest Silicon Valley chip company. But as Mr Grove explains, Silicon Valley is much more than a "place".

Glyn Genin

Chip makers in the powerhouse of high-technology

"It is also a business machine, a wealth-creating machine and also a social phenomenon. We have generated new styles and new things."

Indeed, it is Silicon Valley's ability to spawn new businesses, as well as new technology, that has maintained the region's vitality.

In spite of serious international competition facing the US semiconductor industry, 100 new semiconductor companies have been founded in Silicon Valley over the past 10 years. Many have not stood the test of time; a few have become very successful.

Silicon Valley has also been the birthplace of a multitude of computer companies. They include Apple Computer, formed in the mid-1970s, that transformed the personal computer from a hobby item into a commercial product. Sun Microsystems, though not the first manufacturer of computer workstations, has quickly become a leader in this expanding market sector.

This new generation of semiconductor and computer makers is playing an important role in shaping Silicon Valley's social fabric.

Youth has always been an essential element of Silicon Valley's unique culture. The original Silicon Valley semiconductor companies were founded by men in their thirties. Today, while there are many industry veterans, some of the most successful companies are similarly run by young people.

The "social phenomenon" of Silicon Valley, as Andrew Grove calls it, is the region's ability to draw people from around the world, fired by a mix of bold optimism and greed. California's gold diggers of the last century had much in common with today's Silicon Valley entrepreneurs.

Obscuring the Valley's high-pressure work ethic is a western casual style that rejects the pomposity of established East Coast business. There are few executive dining suites or manager's parking places here. First names are the normal style of address with no regard to corporate rank.

However, what is valued most here is the creative genius driving technological innovation. Engineers are Silicon Valley's greatest asset and they are treated with a respect often lacking elsewhere.

In assessing his remarkable accomplishments in Silicon Valley, the late Robert Noyce said he most valued helping to create a meritocracy.

Failure is also part of Silicon Valley's fabric. Dozens of hopeful new ventures fall apart. Thousands of jobs disappear during cyclical high-tech downturns. The social consequences are counted in record divorce rates.

Today, the entire Silicon Valley is facing an unprecedented crisis of confidence. The uncertain economic outlook and talk of recession have combined with relentless foreign competition to raise fears. An apparent lack of interest in high-technology industries by the Bush administration has added a note of cynicism.

Silicon Valley, suggests Intel's Andrew Grove, could become a "techno-colony". The region is becoming "an investment outpost for far eastern industrialists", he warns. "We have to doggedly dedicate ourselves to not giving up." More than most industries or countries that have faced an onslaught of foreign competition, Silicon Valley's chip makers are determined to repel the invasion of their markets and their homeland.

**Louise Kehoe**